Inuvialuit Regional Corporation

Financial Report 2016

AUDITORS PricewaterhouseCoopers LLP
Edmonton, AB

DESIGN/ PRODUCTION Peggy Jay, IRC

April 19, 2017

Independent Auditor's Report

To the Beneficiaries of
Inuvialuit Regional Corporation

We have audited the accompanying consolidated financial statements of Inuvialuit Regional Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of comprehensive income, changes in equity 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 consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Inuvialuit Regional Corporation and its subsidiaries as at December 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: + 1 780 441 6776

Inuvialuit Regional Corporation
Consolidated Statement of Financial Position
As at December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
ASSETS		
Current assets		
Cash and cash equivalents	100,214	83,651
Accounts receivable	51,033	57,880
Income taxes recoverable	-	23,582
Due from related parties (note 23)	1,909	530
Inventories (note 5)	22,697	40,443
Prepaid expenses	6,048	11,006
Assets held-for-sale (note 6)	5,502	-
	187,403	217,092
Non-current assets		
Investments, loans and advances (note 7)	1,575	2,413
Marketable securities (note 8)	426,950	412,845
Property, plant and equipment (note 10)	110,641	179,749
Income producing real estate (note 11)	6,212	5,159
Goodwill and intangible assets (note 12)	14,401	16,321
	747,182	833,579
LIABILITIES		
Current liabilities		
Bank indebtedness (note 15)	121,938	140,949
Accounts payable and accrued liabilities	37,423	56,967
Income taxes payable	305	-
Deferred revenue (note 13)	14,725	9,737
Long-term debt (note 15)	75,921	13,201
Finance lease obligations (note 15)	319	2,086
Note payable (note 15)	2,000	2,000
Financial liabilities to Fixed Income Fund participants (note 9)	32,027	30,101
	284,658	255,041
Non-current liabilities		
Financial liabilities to Balanced Fund participants (note 8)	583	1,387
Provisions (note 14)	4,287	4,939
Long-term debt (note 15)	-	80,007
Finance lease obligations (note 15)	14,007	23,670
Note payable (note 15)	3,827	5,615
Pension obligations (note 16)	2,661	13,852
Deferred income taxes (note 17)	4,636	16,780
	314,659	401,291
EQUITY		
Capital transfers (note 19)	117,082	119,505
Retained earnings	315,441	312,783
	432,523	432,288
	747,182	833,579

Commitments and contingencies (note 18)

Approved by the Board of Directors

Gerald L Inglangasuk

Duane Smith
Director

Gerald Inglangasuk
Director

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

Inuvialuit Regional Corporation
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Revenue		
Development (note 20)	296,452	331,769
Realized investment (note 8)	21,712	22,517
Unrealized investment (note 8)	12,810	5,435
Land access and administration fees	3,242	12,792
Petroleum and natural gas	1,085	667
Other	2,583	2,181
	337,884	375,361
Expenses		
Development (note 21)	253,187	294,937
General and administrative – net of recoveries (note 21)	32,279	28,140
Depreciation, amortization and depletion	20,865	21,660
Finance (note 22)	8,498	11,421
Maintenance and decommissioning provisions (note 14)	1,681	2,158
Investment management, custody and other related fees	1,266	1,208
Community corporation funding	1,277	1,254
Petroleum and natural gas	704	587
	319,757	361,365
Other income (expense)		
Impairment of long-lived assets (notes 6 and 10)	(12,361)	(2,000)
Insurance recovery	-	1,504
Loss on sale of property, plant and equipment – net	(790)	(1,817)
Impairment of investment	-	(1,050)
(Loss) equity in earnings of associates (note 7)	(370)	476
Other	996	57
	(12,525)	(2,830)
Income before income taxes from continuing operations	5,602	11,166
Income taxes (recovery) (note 17)		
Current	104	(20,415)
Deferred	(14,722)	(5,292)
	(14,618)	(25,707)
Net income for the year from continuing operations	20,220	36,873
Net loss for the year from discontinued operations (note 25)	(17,562)	(23,082)
Net income for the year	2,658	13,791
Actuarial gain on pension obligations (note 16)	-	1,500
Comprehensive income for the year	2,658	15,291
Comprehensive income for the year relates to		
Continuing operations	20,220	36,873
Discontinued operations	(17,562)	(21,582)
	2,658	15,291

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

Inuvialuit Regional Corporation

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

(in thousands of Canadian dollars)

	Capital Transfers $	Retained Earnings $	Total Equity $
Balance – January 1, 2015	122,052	297,492	419,544
Comprehensive income for the year	-	15,291	15,291
Distributions to the Inuvialuit Trust	(2,547)	-	(2,547)
Balance – December 31, 2015	119,505	312,783	432,288
Balance – January 1, 2016	119,505	312,783	432,288
Comprehensive income for the year	-	2,658	2,658
Distributions to the Inuvialuit Trust	(2,423)	-	(2,423)
Balance – December 31, 2016	117,082	315,441	432,523

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

Inuvialuit Regional Corporation
Consolidated Statement of Cash Flows
For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net income for the year from continuing operations	20,220	36,873
Adjustments for		
Unrealized investment revenue	(12,810)	(5,435)
Net realized gain on sale of investments	(6,579)	(9,307)
Depreciation, amortization and depletion	20,865	21,660
Amortization of discount on note payable	212	456
Finance expenses	9,077	12,003
Impairment of long-lived assets	12,361	2,000
Loss on sale of property, plant and equipment	790	1,817
Impairment of investment	-	1,050
Loss (equity) related to associates	370	(476)
Income tax recovery	(14,618)	(25,707)
Gain on disposal of businesses (note 25)	(118)	-
Changes in items of working capital		
Accounts receivable	4,132	28,292
Due from related parties	(1,379)	(725)
Inventories	908	3,019
Prepaid expenses	3,768	(256)
Accounts payable and accrued liabilities	(5,274)	(22,959)
Deferred revenue	4,988	(1,339)
Provisions	(652)	395
Interest paid	(8,498)	(11,416)
Investments from (repayment to) Fixed Income Fund participants	1,347	(1,447)
Income taxes recovered (paid)	23,783	(7,591)
Excess of pension contributions over expenses	(172)	(69)
Discontinued operations (note 25)	336	(8,963)
	53,057	11,875
Investing activities		
Net increase in investments, loans and advances	468	347
Net sales of marketable securities	4,480	4,663
Purchases of property, plant and equipment	(19,797)	(14,951)
Proceeds from the sale of property, plant and equipment	5,635	6,672
Purchases of income-producing real estate	(1,519)	(176)
Purchases of intangible assets	(18)	(26)
Disposal of businesses (note 25)	875	-
Discontinued operations (note 25)	11,387	(4,805)
	1,511	(8,276)
Financing activities		
(Decrease) increase in bank indebtedness	(10,823)	23,291
Repayment of long-term debt	(10,345)	(24,514)
Repayment of finance lease obligations	(288)	(208)
Repayment of note payable	(2,000)	(2,000)
Distribution to beneficiaries – capital	(2,423)	(2,547)
Discontinued operations (note 25)	(12,126)	15,702
	(38,005)	9,724
Increase in cash and cash equivalents during the year	16,563	13,323
Cash and cash equivalents – Beginning of year	83,651	70,328
Cash and cash equivalents – End of year	100,214	83,651

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

(in thousands of Canadian dollars)

1 General Information

On June 5, 1984, the Government of Canada and the Committee for Original Peoples' Entitlement (COPE) approved the Inuvialuit Final Agreement dated March 15, 1984 (IFA). The IFA provides for the Inuvialuit to receive lands and financial compensation.

The IFA provided for the Inuvialuit Regional Corporation (IRC or the Corporation) to receive, in annual instalments from the Government of Canada, financial compensation aggregating $152,000. During 1997, IRC received the final instalment from the Government of Canada.

The Inuvialuit have established various entities to manage the compensation and benefits received under the IFA. IRC, a corporation controlled and directed by elected representatives of the six Inuvialuit Community Corporations, was established to hold 100% of the voting shares of all corporate entities created to hold the lands and financial compensation.

IRC and its subsidiaries are incorporated and domiciled in Canada. The address of its registered office is 107 Mackenzie Road, Inuvik, Northwest Territories.

2 Basis of Presentation

The Corporation prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as set out in the Chartered Professional Accountants of Canada (CPA Canada) Handbook. The Corporation has consistently applied IFRS throughout these consolidated financial statements.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 19, 2017 the date the Board of Directors approved the consolidated financial statements.

3 Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars, which is the Corporation's functional currency, rounded to the nearest thousand dollars, except when otherwise indicated, and are prepared on the historical cost basis, except for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss.

Consolidation

These consolidated financial statements include the accounts of the following entities:

Subsidiaries (100% owned)

Inuvialuit Land Corporation
Inuvialuit Petroleum Corporation
Inuvialuit Investment Corporation
Inuvialuit Development Corporation
NorTerra Inc.
Aklak Air Ltd.
Oceanside Village Developments Inc.
Stanton Group Ltd.
KBL Land Use Consulting Ltd.

Associates

Northern Aboriginal Services Corporation (25%)
Pan Arctic Inuit Logistics Corporation (19%)

(in thousands of Canadian dollars)

Joint ventures	Joint operations
Inuvik Gas Ltd. (33%)	Akita Equtak Drilling Ltd. (50%)
Ikhil Joint Venture (33%)	
Arctic Oil & Gas Services Inc. (50%)	
Aklak Inc. (51%)	
Inukshuk Geomatics Inc. (51%)	
Inuvialuit Oilfield Services Ltd. (51%)	
IEG Consultants Ltd. (51%)	
Tundra Communications Inc. (51%)	
Nappaq Construction Ltd. (51%)	
Mackenzie Integrated Tubular Solutions Inc. (50%)	
Inuvialuit BBE Expediting Ltd. (51%)	

- Subsidiaries

Subsidiaries are entities over which the Corporation has control. The Corporation controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This includes the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation.

Subsidiaries are deconsolidated form the date control ceases. Intercompany transactions, balances and unrealized gains or losses on transactions between the Corporation and the subsidiary companies are eliminated.

- Associates

Associates are all entities over which the Corporation has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Corporation's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Corporation's share of its associates' post-acquisition comprehensive profits or losses is recognized in the consolidated statement of comprehensive income and increases or decreases the carrying amount of the investment. When the Corporation's share of losses in an associate equals or exceeds its interest in the associate the Corporation does not recognize further losses, unless it has legal or constructive obligations on behalf of the associate. In these circumstances, the Corporation also evaluates any other long-term receivables where repayment is neither planned nor expected in the foreseeable future.

- Joint arrangements

A joint arrangement is an arrangement whereby two or more parties have joint control and is either a joint operation or a joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Corporation's interests in jointly controlled operations are accounted for by proportionate consolidation. The Corporation combines its share of the joint operations' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Corporation's consolidated financial statements. The Corporation recognizes the portion of gains or losses on the sale of assets to the joint operation that is attributable to the other venturers. The Corporation does not recognize its share of profits or losses from the joint venture that result from the Corporation's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

The Corporation's interests in jointly controlled ventures are accounted for using the equity method.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and term deposits held at call with banks with a maturity date of less than three months.

Financial instruments

- Recognition

  The Corporation initially recognizes financial assets and financial liabilities measured at amortized cost on the date at which they are originated. All other financial assets and liabilities are initially recognized on the settlement date at which the Corporation becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

- Classification and measurement

  Cash and cash equivalents, accounts receivable, due from related parties and loans and advances to affiliates are categorized as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

  The Corporation classifies its marketable securities and its financial liabilities to Balanced Fund participants as financial assets or financial liabilities at fair value through profit or loss. This category has two sub-categories: financial assets and financial liabilities held-for-trading; and those designated at fair value through profit or loss at inception.

  i) Financial assets and liabilities held-for-trading - A financial asset or financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition, it is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held-for-trading. The Corporation does not classify any derivatives as hedges in a hedging relationship.

  ii) Financial assets and liabilities designated at fair value through profit or loss at inception - Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held-for-trading, but are managed, and their performance is evaluated, on a fair value basis in accordance with the Corporation's documented investment strategy. The Corporation's policy requires the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

  Gains or losses arising from changes in the fair value of marketable securities and financial liabilities to Balanced Fund participants are presented in the consolidated statement of comprehensive income within unrealized investment revenue in the period in which they arise.

  The Corporation maintains cash accounts with its custodians for various investment managers due to the timing of security purchases and sales; these accounts are classified as loans and receivables.

  Bank indebtedness, accounts payable and accrued liabilities, long-term debt, finance lease obligations, notes payable and financial liabilities to Fixed Income Fund participants are classified as financial liabilities at amortized cost. These liabilities are initially recognized at fair value, net of any transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

- Derecognition

  The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the consideration received (including any new asset obtained less any new liability assumed) is recognized in the consolidated statement of comprehensive income.

  The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

- Offsetting

  Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Corporation has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

- Fair value

  Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Impairment of financial assets

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. If there is objective evidence, such as significant financial difficulty of the obligor, breach of contract or it becomes probable the debtor will enter bankruptcy, the asset is tested for impairment. The amount of loss is measured as 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 through the use of an allowance account. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of raw materials, work-in-progress, finished goods, merchandise, fuel and other inventory is determined using the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased during the period calculated as each shipment is received. The cost of supplies inventory is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

If the carrying value exceeds net realizable value, a writedown is recognized. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed (i.e. the reversal is limited to the amount of the original writedown) so that the new carrying amount is the lower of the cost and the revised net realizable value.

Property, plant and equipment

Property, plant and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred except for the costs of major overhauls of aircraft, which are capitalized to aircraft and are amortized over the period until the next corresponding overhaul is required.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(in thousands of Canadian dollars)

Depreciation is provided using the following methods and useful lives:

Assets	**Method**	**Useful lives or percentage per year**
Land improvements	Declining balance	8%
Machinery and equipment	Straight-line and declining balance	3 – 5 years and 20%
Drilling equipment	Days used	actual usage
Petroleum and natural gas properties	Units of production	actual usage
Plant and pipeline	Straight-line	3 years
Buildings and structures	Straight-line and declining balance	10 – 40 years and 4% – 5%
Aircraft	Straight-line and cycles flown	5 – 10 years and actual cycles flown
Leased aircraft improvements	Straight-line	5 years
Marine equipment	Straight-line	10 years
Manufacturing equipment	Straight-line	10 years
Office equipment	Straight-line and declining balance	3 – 5 years and 20% – 30%
Leasehold improvements	Straight-line	7 – 10 years
Automotive	Straight-line	3 – 7 years
Other assets	Straight-line	5 years

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statement of comprehensive income.

Non-repayable government funding related to property, plant and equipment is recorded as a reduction in the cost of the related asset.

Income producing real estate

Income producing real estate is recorded at the lower of cost less accumulated depreciation and recoverable amount. Depreciation is provided on a straight-line basis over the estimated useful life of each income-producing property (ranging from 5 to 20 years). The fair value of income-producing real estate is disclosed in the notes to the consolidated financial statements. Fair value amounts disclosed in the consolidated financial statements are in most circumstances, supported by market evidence. Where market evidence is limited, fair value is calculated based on a discounted cash flow model. Where available, information from independent valuations has been used to determine the fair value of these properties. The fair value disclosures are included within Level 3 of the fair value hierarchy (see note 24 for a definition of levels).

The capitalized costs of income-producing real estate include initial acquisition costs, development fees, leasing fees, financing fees, interest charges and other direct expenses.

Non-repayable government funding related to income-producing real estate is recorded as a reduction of the cost of the related property.

Goodwill and intangible assets

Goodwill represents the excess of the acquisition cost over the fair value of identifiable tangible and intangible net assets acquired at the date of purchase.

Customer relationships and trade names acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have a finite life and are amortized on a straight-line basis over the estimated useful life of seven years. Trade names have an indefinite life and are not amortized but tested for impairment on an annual basis.

Purchased intangible assets are recorded at cost and are composed of costs incurred to secure the transfer of Inuvialuit lands from the federal government (Settlement Rights) and computer software. Settlement Rights have an indefinite life and are not amortized but are tested for impairment on an annual basis. Computer software has a finite life and is amortized on a straight-line basis of 20% to 100% per year.

Impairment of non-financial assets

Assets that have an indefinite useful life, which includes goodwill, trade names and Settlement Rights, are not subject to amortization and are tested annually for impairment. Property, plant and equipment, income-producing real estate and intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs).

The Corporation evaluates impairment losses for potential reversals, other than goodwill impairment losses, when events or circumstances warrant such consideration.

Assets held-for-sale

Non-current assets, or assets of a disposal group, are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met when assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of such assets, and their sale is highly probable. The Corporation must be committed to the sale, which should be expected to qualify as a completed sale within one year from the date of classification.

Assets classified as held-for-sale are measured at the lower of their carrying amounts and their fair value less costs to sell.

Provisions

Provisions for maintenance and asset retirement obligations are recognized when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The Corporation's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. This obligation requires the Corporation to record a maintenance provision for certain return conditions specified in the operating lease agreements. The maintenance provision is recorded over the term of the lease and uses a discount rate taking into account the specific risks of the provision over the remaining term of the lease. Interest accretion on the provision is recorded in finance expense. Any changes in the maintenance cost estimate, discount rates, timing of settlement or difference in the actual maintenance cost incurred and the amount of the provisions are recorded in aircraft maintenance in the period.

A provision for decommissioning costs relating to the Ikhil natural gas well is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as finance expense.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Leases in which substantially all the risks and rewards of ownership have transferred to the Corporation are classified as finance leases. The leased assets are recognized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful lives of the assets and the lease term.

Employee benefits

- Other employee future benefits

  The Corporation has a supplemental pension plan for certain employees. The cost is actuarially determined using the projected unit credit method pro-rated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health-care cost inflation, salary escalation and general inflation. The supplemental pension plan is unfunded.

  The discount rate on the pension obligations is equal to the yield at the measurement date on high quality corporate bonds that have maturity dates approximating the terms of the Corporation's obligation.

  Past-service costs are recognized immediately in income.

  Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions attributable to the supplemental pension and adjustments resulting from minimum funding requirements, are recognized immediately in other comprehensive income and retained earnings without recycling to net income in subsequent periods.

- Defined contribution pension plan

  The Corporation also has a defined contribution pension plan for certain employees, which provides pension benefits based on the accumulated contributions and fund earnings. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in income in the periods during which services are rendered by employees.

Revenue recognition

Development revenue is recognized on the accrual basis and includes an estimate of services provided but not yet billed. Contract revenues are recognized in the accounting period when the services are rendered. Revenue from income-producing real estate is recorded as income as facility rental accommodations are provided. Other revenue is recognized at the time the service is performed or when title passes to the customer.

Land access and administration fees revenue is recognized at the time the service is performed.

Petroleum and natural gas revenue from sales of products is recognized on shipment to the customer.

Cash received in advance of a service being provided or goods being delivered is recorded as deferred revenue.

Realized portfolio income

Realized portfolio income is comprised of all portfolio investment income, with the exception of any unrealized gains or losses on the adjustment of marketable securities to fair value. It includes:

- Realized gains and losses

  Income from realized gains and losses includes all realized fair value changes for financial assets and liabilities, which are classified as fair value through profit or loss.

- Interest

  Interest income includes amounts calculated using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

- Dividends

  Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

- Partnership income

  Partnership income includes all amounts received and receivable from partnerships. Distributions are made quarterly based on the income available in the partnership.

- Dividend withholding taxes

  The Corporation is subject to dividend withholding tax on distributions made from certain foreign investment vehicles. These taxes are based on tax treaties signed with the country in which the foreign investment vehicle resides and are deducted from any realized portfolio income. The Corporation is eligible to claim a tax benefit either in the form of a reduction in taxes payable or a deduction against income for tax purposes.

Government grants

Grants from the government are recognized at their fair value when there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Income taxes recoverable represents the current estimated refund of taxes from taxation authorities.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign exchange transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of comprehensive income in general and administrative expenses.

Changes in accounting policy

The IFRS Interpretations Committee (IC) issued an agenda decision in April 2016 on when and whether entities with cash pooling arrangements are able to offset balances in accordance with IAS 32, Financial Instruments – Presentation. The IC noted that, to the extent to which a group does not expect to settle its subsidiaries' year-end account balances on a net basis, it would not be appropriate for the group to assert that it had the intention to settle the entire year-end balances on a net basis at the reporting date.

The Corporation was previously offsetting balances under cash pooling arrangements and has retroactively restated the consolidated statement of financial position to present cash and bank indebtedness gross. This has resulted in an increase to cash and bank indebtedness as at December 31, 2015 of $83,651.

Accounting standards and amendments issued but not adopted

- IFRS 9, Financial Instruments

  IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. IFRS 9 is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation is in the process of evaluating the impact IFRS 9 may have on the consolidated financial statements.

- IFRS 15, Revenue From Contracts With Customers

  IFRS 15, Revenue from Contracts With Customers, supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of their revenue recognition criteria. IFRS 15 is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation is in the process of evaluating the impact IFRS 15 may have on the consolidated financial statements.

- IFRS 16, Leases

  IFRS 16, Leases, replaces IAS 17, Leases, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that apply IFRS 15. The Corporation is in the process of evaluating the impact IFRS 16 may have on the consolidated financial statements.

4 Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions concerning the future and requires management to make judgments in applying accounting policies. Estimates and assumptions are based on historical experience, expectations, current trends and other factors that management believed to be relevant at the time at which the Corporation's consolidated financial statements are prepared. Management reviews, on a regular basis, the Corporation's estimates, assumptions and judgments and reflects revisions in future periods. The estimates, assumptions and management judgments that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

Investments in joint ventures and associates

The consolidated financial statements include the Corporation's accounts and all other entities in which the Corporation has a controlling financial interest, except where the control over the operations is limited by significant participating interests held by another investor in such operations.

Where the Corporation does not have control, either because of significant participating interests by other parties or the presence of only significant influence, the entity is accounted for using the equity method.

There are a number of areas where significant judgment is exercised to establish whether an entity is required to be consolidated. In order to establish whether an entity is a consolidated subsidiary, a joint venture or an associate, key areas of judgment include:

- qualitative analysis of an entity including review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and assessment of the purpose and design of the entity;

- rights of partners regarding significant business decisions, including disposals and acquisitions of assets;

- board and management representation;

- ability to make financing decisions; and

- operating and capital budget approvals and contractual rights of other parties.

The exercise of judgment in these areas determines whether a particular entity is consolidated, accounted for under the equity method or as a financial asset.

The following Inuvialuit entities are not included in these consolidated financial statements:

- The Inuvialuit Trust
- The Inuvialuit Harvesters Assistance Trust
- The Inuvialuit Community Economic Development Organization
- The Inuvialuit Charitable Foundation
- The Inuvialuit Educational Foundation
- The Inuvialuit Social Development Fund

This conclusion was based on a thorough review of the facts and circumstances related to the areas of judgment discussed above.

As well, in situations where an associate's losses exceed the Corporation's interest in the associate, management needs to assess what other long-term interests form part of the Corporation's net investment and to what extent, if any, a provision needs to be recorded for losses in excess of the net investment.

If the judgment applied in determining the accounting treatment of an entity is incorrect or the fact pattern on which it is based changes, such entities may need to be consolidated or may result in unexpected losses being reflected in the consolidated financial statements.

There are cases where an investment is accounted for as a joint venture or an associate using the equity method, despite having an ownership interest exceeding 50%, as the Corporation does not exercise direct or indirect control over the investee. To the extent the Corporation is deemed to control these entities, the entities would have to be consolidated. This would affect the consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows.

Fair value of financial instruments

The Corporation holds investments in certain funds and partnership units that do not have a quoted value in an active market. Management has reviewed the valuation methodology (including the nature of factors incorporated into the models) used by third party pricing sources that are relied on and has considered the quality processes and controls related to third party pricing sources.

The fair value of investments in fund and partnership units is determined based on the net asset value (NAV) of the underlying investments. Use of the NAV is considered an appropriate reflection of fair value because the fund and partnership units are a conduit to the underlying portfolio of investments. Management considers the manner in which the fair value of the underlying assets and liabilities was determined and whether adjustments are required to the NAV based on the terms of its investments, including liquidity factors. The majority of these investments are open ended and do not have any significant restrictions imposed on them related to the redemption of units. Six of the investments, Birch Hill Equity Partners III, LP, Birch Hill Equity Partners V, LP, Imperial Capital Acquisition Fund IV, Imperial Capital Acquisition Fund V, Imperial Capital Acquisition Fund VI and KingSett Canadian Real Estate Income Fund LP, are closed ended and there is no active market for subscribing and redeeming units. Management has not applied a discount factor related to the inability to redeem units.

(in thousands of Canadian dollars)

Inventories

The Corporation records inventories at the lower of cost and net realizable value. Writedowns for inventory are recorded each period as required and updated based on management's judgment.

Maintenance provision

The Corporation has a legal obligation to adhere to certain maintenance conditions set out in its aircraft operating lease agreements relating to the condition of the aircraft when it is returned to the lessor. To fulfill these obligations, a provision is made during the lease term. Judgments related to the maintenance provision include the likely utilization of the aircraft, the expected future cost of the maintenance, the point in time at which maintenance is expected to occur and the discount rate used to present value the future cash flows.

Impairment considerations for long-lived assets

An impairment test is performed by comparing the carrying amount of the asset or CGU to its recoverable amount, which is calculated as the higher of an asset's or CGU's fair value less costs of disposal and its value-in-use. Value-in-use is calculated based on a discounted cash flow analysis, which requires management to make a number of significant estimates including assumptions relating to future operating plans, discount rates and future growth rates. Refer to note 12 for additional information.

5 Inventories

	2016 $	2015 $
Raw materials	2,321	2,316
Work-in-progress	1,122	1,417
Finished goods	7,433	6,740
Merchandise	1,663	9,960
Supplies	7,242	8,749
Fuel	-	7,942
Other	2,916	3,319
	22,697	40,443

Inventory expensed during the year of $43,766 (2015 – $48,047) has been included in development expenses.

6 Assets Held-for-Sale

	2016 $	2015 $
Aircraft	1,574	-
Marine equipment	3,928	-
	5,502	-

During the year, management committed to a plan to sell two airplanes with a carrying value of $4,848. The airplanes were replaced by newer models and were not fully utilized when management made the decision to sell. The airplanes are being actively marketed and management expects to complete the sale within a year. On reclassification from property, plant and equipment to assets held-for-sale, the airplanes were written down to fair value less costs to sell of $1,574. The loss of $3,274 is included in impairment of long-lived assets in the consolidated statement of comprehensive income.

The fair value measurement is categorized in Level 3 of the fair value hierarchy (see note 24 for a definition of levels). There is a limited market for the two airplanes so the fair value was determined based on the offers received to purchase the airplanes.

Management has also committed to a plan to sell marine equipment with a carrying value of $3,928. The marine equipment was used by Northern Transportation Company Limited until it declared bankruptcy on December 30, 2016 (note 25). The marine equipment is being actively marketed and management expects to complete the sale within a year. The fair value less costs to sell was higher than the carrying value so there was no writedown when the marine equipment was reclassified to assets held-for-sale.

(in thousands of Canadian dollars)

7 Investments, Loans and Advances

	2016 $	2015 $
Investments in associates and joint ventures		
Inuvik Gas Ltd.	180	180
Ikhil Joint Venture	-	-
Aklak Inc.	472	493
Arctic Oil & Gas Services Inc.	-	-
Pan Arctic Inuit Logistics Corporation	-	-
Northern Aboriginal Services Corporation	92	92
Inuvialuit Oilfield Services Ltd.	82	82
Tundra Communications Inc.	4	4
IEG Consultants Ltd.	-	-
Akita Equtak Drilling Ltd.	25	25
Mackenzie Integrated Tubular Solutions Inc.	3	3
Inukshuk Geomatics Inc.	-	-
Nappaq Construction Ltd.	-	353
Inuvialuit BBE Expediting Ltd.	4	-
	862	1,232
Loans and advances to affiliates		
Aklak Inc.	407	814
Mackenzie Valley Aboriginal Pipeline Corporation	296	297
Inuvialuit Craft Shop Ltd.	10	70
	713	1,181
	1,575	2,413

Differences in accounting standards

Due to the choice for non-publicly accountable enterprises to adopt either IFRS or Canadian accounting standards for private enterprises (ASPE), there are adjustments required to account for the differences in methodology in applying certain ASPE standards. The standards adopted by each of IRC's associates and joint ventures are detailed below:

Aklak Inc., Pan Arctic Inuit Logistics Corporation, Northern Aboriginal Services Corporation, Inuvialuit Oilfield Services Ltd., Tundra Communications Inc., IEG Consultants Ltd., Mackenzie Integrated Tubular Solutions Inc., Nappaq Construction Ltd. and Inuvialuit BBE Expediting Ltd. use ASPE.

Inuvik Gas Ltd., Ikhil Joint Venture, Arctic Oil & Gas Services Inc., Akita Equtak Drilling Ltd. and Inukshuk Geomatics Inc. use IFRS.

Joint ventures

The aggregate (loss) income recorded from the Corporation's interests in joint ventures is as follows:

	2016 $	2015 $
Aklak Inc.	(21)	120
Inuvialuit Oilfield Services Ltd.	-	3
Nappaq Construction Ltd.	(353)	353
Inuvialuit BBE Expedting Ltd.	4	-
	(370)	476

The Corporation accounts for its share of the joint ventures' and associates' net assets at the end of the fiscal year. Arctic Oil & Gas Services Inc. is in a net deficit position at the end of 2016. The unrecognized share of income for this joint venture is $76 for the year ended December 31, 2016 (2015 – $347) and the cumulative unrecognized loss is $430 (2015 – $506).

(in thousands of Canadian dollars)

Loans and advances to affiliates

Loans and advances to affiliates are non-interest bearing, unsecured and have no fixed terms for repayment.

8 Marketable Securities and Financial Liabilities to Balanced Fund Participants

Portfolio investments are composed of a pooled investment fund (the Balanced Fund), which is managed by the Inuvialuit Investment Corporation (IIC). Under the Balanced Fund, participants hold units of an investment pool and earn a return on a diversified portfolio of investments.

On contribution of funds for investment in the Balanced Fund, the participants receive a number of units determined by dividing the amount of such contributions by the NAV per unit as of the immediately preceding valuation day. Units are not transferable, except with the prior written approval of IIC.

All securities in which the assets of the Balanced Fund are invested are registered in the name of IIC. IIC holds the assets of the Balanced Fund in trust for the participants. The redemption price is the NAV on the valuation day (the last trading day of each month).

The Balanced Fund is consolidated into the consolidated financial statements of the Corporation, and as such the entire assets of the Balanced Fund are reported in the consolidated statement of financial position. Liabilities to other participants in the Balanced Fund have also been reported in the consolidated statement of financial position and are classified as a financial liability designated at fair value through profit or loss at inception.

Classification

Investments are categorized as either held-for-trading or designated at fair value through profit or loss. See note 3 for a description of each category.

	2016 **$**	**2015** **$**
Financial assets held-for-trading		
Equity securities	255,929	233,498
Debt securities	106,125	107,058
Total financial assets held-for-trading	362,054	340,556
Designated at fair value through profit or loss		
Alternative investments	64,896	72,289
Total financial assets at fair value through profit or loss	426,950	412,845

Included in investments are all amounts held in the investment pool. The amounts are categorized as follows:

	2016 **$**	**2015** **$**
Cash	468	381
Receivable from brokers for sales	1,201	1,244
Payable to brokers for purchases	(97)	(30)
Investments at fair value through profit or loss	425,378	411,250
	426,950	412,845

Note that cash excludes short-term cash equivalents such as treasury bills.

(in thousands of Canadian dollars)

Investment income

Investment income includes the gross income of all investments held by the Corporation.

		2016	
	Pooled income $	Share of income of other fund participants $	Total $
Interest – net	1,658	7	1,651
Dividends	6,366	16	6,350
Partnership income	7,249	14	7,235
Other investment gains and losses	(101)	-	(101)
Changes in fair value of financial assets and liabilities carried at fair value through profit or loss			
Realized	6,592	15	6,577
Unrealized	12,848	38	12,810
	34,612	90	34,522

		2015	
	Pooled income $	Share of income of other fund participants $	Total $
Interest – net	1,528	7	1,521
Dividends	6,512	21	6,491
Partnership income	5,462	15	5,447
Other investment gains and losses	(250)	(1)	(249)
Changes in fair value of financial assets and liabilities carried at fair value through profit or loss			
Realized	9,338	31	9,307
Unrealized	5,453	18	5,435
	28,043	91	27,952

Interest income is earned on debt securities. Interest and dividend income are reported net of withholding taxes of $208 (2015 – $127).

Income from investments designated at fair value through profit or loss is comprised of partnership income. Other net changes on unrealized income on financial assets and liabilities at fair value through profit or loss are shown below:

	2016 $	2015 $
Designated at fair value through profit or loss	76	2,165
Held-for-trading	12,734	3,270
	12,810	5,435

(in thousands of Canadian dollars)

Alternative investments

Included in financial assets designated at fair value through profit or loss at inception, the Corporation has interests in Birch Hill Equity Partners III, LP (BHEP III), Birch Hill Equity Partners V, LP (BHEP V), Imperial Capital Acquisition Fund IV (Institutional) (ICAF IV), Imperial Capital Acquisition Fund V (Institutional) (ICAF V), Imperial Capital Fund VI (Institutional) (ICAF VI), KingSett Canadian Real Estate Income Fund LP (KingSett) and the Blair Franklin Global Credit Fund LP (Blair Franklin). Details of these funds are included below:

	Fund type	Ownership interest %	Capital committed $	Investment period	2016 distributions $	Remaining commitment $	Fair value $
BHEP III	limited partnership	1.2	5,000	Dec 31, 2016	973	113	1,947
BHEP V	limited partnership	1.0	5,000	Dec 31, 2019	297	4,675	325
ICAF IV	limited partnership	25	5,000	Dec 31, 2016	250	230	1,061
ICAF V	limited partnership	15	5,000	Dec 31, 2019	-	1,007	6,398
ICAF VI	limited partnership	4.2	5,000	Dec 31, 2022	-	4,910	91
KingSett	REIT	2.3	30,000	open	15,944	-	34,562
Blair Franklin	hedge fund	2.3	8,000	open	-	-	19,612
Other			-		-	-	900
Total			63,000		17,464	10,935	64,896

Financial liabilities to Balanced Fund participants

The change in financial liabilities to Balanced Fund participants is shown below:

	2016 $	2015 $
Balance – Beginning of year	1,387	1,226
Realized income	52	73
Unrealized income	38	18
Net (sales) purchases	(894)	70
Balance – End of year	583	1,387

9 Financial Liabilities to Fixed Income Fund Participants

Fixed Income Fund participants receive a return based on DEX overall domestic bond return rates. The Corporation must pay to each Fixed Income Fund participant, at least semi-annually, interest on the funds invested for the account of such Fixed Income Fund participant.

The following is a summary of the participants in the Fixed Income Fund:

- Inuvialuit Social Development Program
- Inuvialuit Education Foundation
- Inuvialuit Charitable Foundation
- Inuvialuit Harvesters Assistance Trust
- Various community corporations

The Corporation's obligation to the participants in the Fixed Income Fund is recognized in the Corporation's consolidated financial statements as a financial liability at amortized cost. During the year, interest expense on financial liabilities to Fixed Income Fund participants was $580 (2015 – $582). The interest expense is reported net of realized investment revenue in the consolidated statement of comprehensive income. Financial liabilities to Fixed Income Fund participants are classified as current liabilities due to their demand nature.

(in thousands of Canadian dollars)

10 Property, Plant and Equipment

	As at December 31, 2015										As at December 31, 2016
	Cost	Accumulated depreciation	Net book value	Opening net book value	Additions	Disposals	Transfers	Transfers to assets held-for-sale	Impairment	Dep'n	Discontinued operations	Closing net book value
	$	$	$	$	$	$	$	$	$	$	$	$
Land and land improvements	3,131	(68)	3,063	3,063	6	-	-	-	-	(9)	(1,696)	1,364
Machinery and equipment	1,664	(1,448)	216	216	89	-	-	-	-	(52)	-	253
Drilling equipment	18,400	(6,835)	11,565	111,565	87	-	-	-	(9,087)	(655)	-	1,910
Petroleum and natural gas properties	3,586	(3,586)	-	-	-	-	-	-	-	-	-	-
Plant and pipeline	5,881	(5,881)	-	-	-	-	-	-	-	-	-	-
Asset retirement obligation	141	(141)	-	-	-	-	-	-	-	-	-	-
Buildings and structures	89,253	(18,175)	71,078	71,078	648	-	(9)	-	-	(3,683)	(7,869)	60,165
Aircraft	64,100	(18,565)	45,535	45,535	16,948	(6,389)	-	(4,848)	-	(11,358)	-	39,888
Marine equipment	50,704	(15,017)	35,687	35,687	-	-	-	(3,928)	-	(428)	(31,331)	-
Manufacturing equipment	9,869	(4,917)	4,952	4,952	1,672	-	-	-	-	(1,535)	-	5,089
Office equipment	9,081	(5,516)	3,565	3,565	140	(31)	9	-	-	(574)	(2,019)	1,090
Automotive	6,097	(2,009)	4,088	4,088	207	(5)	-	-	-	(433)	(2,975)	882
	261,907	(82,158)	179,749	179,749	19,797	(6,425)	-	(8,776)	(9,087)	(18,727)	(45,890)	110,641

	As at December 31, 2014									As at December 31, 2015
	Cost	Accumulated depreciation	Net book value	Opening net book Value	Additions	Disposals	Transfers	Impairment	Dep'n	Discontinued operations	Closing net book value
	$	$	$	$	$	$	$	$	$	$	$
Land and land improvements	3,057	(62)	2,995	2,995	74	-	-	-	(6)	-	3,063
Machinery and equipment	1,647	(1,400)	247	247	29	(9)	-	-	(51)	-	216
Drilling equipment	18,272	(6,047)	12,225	12,225	128	-	-	-	(788)	-	11,565
Petroleum and natural gas properties	3,586	(3,586)	-	-	-	-	-	-	-	-	-
Plant and pipeline	5,881	(5,881)	-	-	-	-	-	-	-	-	-
Asset retirement obligation	141	(141)	-	-	-	-	-	-	-	-	-
Buildings and structures	87,715	(13,718)	73,997	73,997	1,961	(161)	-	(1,610)	(3,504)	395	71,078
Aircraft	60,840	(8,337)	52,503	52,503	11,804	(8,229)	1,598	-	(12,141)	-	45,535
Marine equipment	48,991	(4,577)	44,414	44,414	-	-	-	-	(570)	(8,157)	35,687
Manufacturing equipment	9,849	(3,251)	6,598	6,598	146	(77)	-	(222)	(1,493)	-	4,952
Office equipment	8,445	(4,217)	4,228	4,228	390	(3)	-	(24)	(702)	(324)	3,565
Automotive	5,927	(1,085)	4,842	4,842	419	(10)	(1,598)	(3)	(523)	961	4,088
	254,351	(52,302)	202,049	202,049	14,951	(8,489)	-	(1,859)	(19,778)	(7,125)	179,749

(in thousands of Canadian dollars)

Ending cost and accumulated depreciation for 2016 were as follows:

	Cost $	Accumulated depreciation $
Land and land improvements	1,441	(77)
Machinery and equipment	1,754	(1,501)
Drilling equipment	18,487	(16,577)
Petroleum and natural gas properties	3,586	(3,586)
Plant and pipeline	5,881	(5,881)
Asset retirement obligation	141	(141)
Buildings and structures	80,978	(20,813)
Aircraft	61,169	(21,281)
Marine equipment	-	-
Manufacturing equipment	11,539	(6,450)
Office equipment	6,120	(5,030)
Automotive	2,393	(1,511)
	193,489	(82,848)

Property, plant and equipment include the following net book values where the Corporation is a lessee under a finance lease:

	2016 $	2015 $
Buildings	13,270	11,475
Marine equipment	-	14,179
Other equipment	-	209
	13,270	25,863

Due to the continued decline in oil prices and reduced future drilling activity, an impairment loss of $9,087 has been recognized on the drilling equipment. The loss is included in impairment of long-lived assets in the consolidated statement of comprehensive income. The recoverable amount of $2,477 was determined based on fair value less costs of disposal. The fair value measurement is included in Level 3 of the fair value hierarchy (see note 24 for a definition of levels) and is based on independent valuations of the drilling equipment.

(in thousands of Canadian dollars)

11 Income Producing Real Estate

	As at December 31, 2015			Year ended December 31, 2016					
	Cost $	Accumulated depreciation $	Net book value $	Opening net book value $	Additions $	Disposals $	Depreciation $	Closing net book value $	Fair value $
Commercial									
Aklavik Office Complex	1,707	(1,538)	169	169	-	-	(79)	90	4,749
Fisheries & Oceans Building	1,098	(1,022)	76	76	-	-	(1)	75	3,443
GNWT Building	819	(806)	13	13	543	-	(14)	542	2,399
Ed Smith Building	558	(501)	57	57	-	-	(2)	55	2,409
Billy Moore Home	345	(53)	292	292	-	-	(12)	280	1,231
Dowland Building	822	(53)	769	769	-	-	(39)	730	1,262
Coast Guard Building	2,067	(397)	1,670	1,670	-	-	(88)	1,582	4,520
	7,416	(4,370)	3,046	3,046	543	-	(235)	3,354	20,013
Residential									
Lauron Apartments	1,233	(981)	252	252	-	-	(53)	199	3,481
14 Stringer	345	(302)	43	43	11	-	-	54	650
16 Stringer	408	(323)	85	85	11	-	(19)	77	471
20 Stringer	324	(282)	42	42	11	-	-	53	403
22 Stringer	313	(272)	41	41	10	-	(2)	49	554
199-205 Loucheux	417	(217)	200	200	11	-	(17)	194	621
266-272 Mackenzie	386	(204)	182	182	21	-	(16)	187	949
Smith Apartments	-	-	-	-	685	-	(20)	665	685
3-9 Natala	249	(167)	82	82	-	-	(8)	74	793
11-17 Natala	335	(257)	78	78	-	-	(13)	65	851
19-25 Natala	342	(149)	193	193	-	-	(14)	179	661
27-33 Natala	245	(147)	98	98	-	-	(9)	89	401
35-41 Natala	-	-	-	-	216	-	(5)	211	496
43-49 Natala	411	(191)	220	220	-	-	(17)	203	717
Tuk Residential	179	(63)	116	116	-	-	(8)	108	394
39 Dolphin	403	(132)	271	271	-	-	(18)	253	453
90 Bompas	289	(79)	210	210	-	-	(12)	198	263
	5,879	(3,766)	2,113	2,113	976	-	(231)	2,858	12,843
	13,295	(8,136)	5,159	5,159	1,519	-	(466)	6,212	32,856

Ending cost and accumulated depreciation for commercial income producing real estate (IPRE) for 2016 was $7,959 and $4,605, respectively.

Ending cost and accumulated depreciation for residential IPRE for 2016 was $6,855 and $3,997, respectively.

(in thousands of Canadian dollars)

	As at December 31, 2014			Year ended December 31, 2015					
	Cost $	Accumulated depreciation $	Net book value $	Opening net book value $	Additions $	Disposals $	Depreciation $	Closing net book value $	Fair value $
Commercial									
Aklavik Office Complex	1,707	(1,459)	248	248	-	-	(79)	169	3,960
Fisheries & Oceans Building	1,098	(1,016)	82	82	-	-	(6)	76	3,019
GNWT Building	819	(805)	14	14	-	-	(1)	13	759
Ed Smith Building	558	(499)	59	59	-	-	(2)	57	2,649
Billy Moore Home	345	(41)	304	304	-	-	(12)	292	1,037
Dowland Building	698	(17)	681	681	124	-	(36)	769	1,055
Coast Guard Building	2,067	(309)	1,758	1,758	-	-	(88)	1,670	4,953
	7,292	(4,146)	3,146	3,146	124	-	(224)	3,046	17,432
Residential									
Lauron Apartments	1,233	(927)	306	306	-	-	(54)	252	3,163
14 Stringer	345	(301)	44	44	-	-	(1)	43	485
16 Stringer	408	(305)	103	103	-	-	(18)	85	460
20 Stringer	324	(282)	42	42	-	-	-	42	440
22 Stringer	313	(271)	42	42	-	-	(1)	41	432
199-205 Loucheux	417	(200)	217	217	-	-	(17)	200	707
266-272 Mackenzie	386	(188)	198	198	-	-	(16)	182	805
3-9 Natala	237	(158)	79	79	12	-	(9)	82	504
11-17 Natala	323	(243)	80	80	12	-	(14)	78	697
19-25 Natala	326	(136)	190	190	16	-	(13)	193	816
27-33 Natala	233	(138)	95	95	12	-	(9)	98	639
43-49 Natala	411	(175)	236	236	-	-	(16)	220	726
Tuk Residential	179	(55)	124	124	-	-	(8)	116	372
39 Dolphin	403	(114)	289	289	-	-	(18)	271	627
90 Bompas	289	(67)	222	222	-	-	(12)	210	123
	5,827	(3,560)	2,267	2,267	52	-	(206)	2,113	10,996
	13,119	(7,706)	5,413	5,413	176	-	(430)	5,159	28,428

The Corporation recognized $2,881 (2015 – $2,732) in revenue from operating leases during the year.

The future minimum lease payments receivable are as follows:

	$
No later than 1 year	2,678
Later than 1 year and no later than 5 years	1,882
Later than 5 years	434
	4,994

(in thousands of Canadian dollars)

12 Goodwill and Intangible Assets

	Stanton Group $	Settlement rights $	Trade names $	Customer relation-ships $	Computer software $	Total $
Year ended December 31, 2015						
Opening net book value	792	4,124	3,923	8,667	243	17,749
Additions	-	-	-	-	26	26
Amortization for the year	-	-	-	(1,379)	(73)	(1,452)
Impairment	-	-	(23)	(118)	-	(141)
Discontinued operations	-	-	-	97	42	139
	792	4,124	3,900	7,267	238	16,321
As at December 31, 2015						
Cost	792	4,124	8,991	24,800	1,421	40,128
Accumulated amortization	-	-	-	(3,989)	(1,183)	(5,172)
Accumulated impairment	-	-	(5,091)	(13,544)	-	(18,635)
	792	4,124	3,900	7,267	238	16,321
Year ended December 31, 2016						
Opening net book value	792	4,124	3,900	7,267	238	16,321
Additions	-	-	-	-	18	18
Amortization for the year	-	-	-	(1,619)	(53)	(1,672)
Discontinued operations	-	-	-	(145)	(121)	(266)
	792	4,124	3,900	5,503	82	14,401
As at December 31, 2016						
Cost	792	4,124	8,991	24,690	1,158	39,755
Accumulated amortization	-	-	-	(5,643)	(1,076)	(6,719)
Accumulated impairment	-	-	(5,091)	(13,544)	-	(18,635)
	792	4,124	3,900	5,503	82	14,401

Trade names acquired in a business combination comprise the brands of Canadian North Inc. (Canadian North) and Weldco-Beales Manufacturing Inc. (Weldco-Beales) and have indefinite lives. Indefinite lives were determined based on the long-standing brands of Canadian North and Weldco-Beales and their ability to generate cash flows into the foreseeable future.

The recoverable amounts for CGUs that include indefinite life intangible assets are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections, based on financial budgets approved by management, covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(in thousands of Canadian dollars)

Key assumptions used in calculating the recoverable amount, which reflect past experience and current market expectations are:

	Canadian North		Weldco-Beales	
	2016	2015	2016	2015
	%	%	%	%
Growth rate (2017)	(14.1)	(14.7)	2.5	(1.8)
Weighted average growth rate (2018 – 2020)	3.3	1.8	3.6	4.2
Terminal growth rate	2.0	2.0	2.0	2.5
Pre-tax discount rate	12.3	12.2	11.2	15.7

There were no impairment losses recognized in 2016 (2015 – $2,000 impairment loss in the Weldco-Beales CGU).

13 Deferred Revenue

	2016	2015
	$	$
Advance ticket sales	5,386	6,160
Funding	8,021	2,255
Corporate leases	1,300	1,322
Other	18	-
	14,725	9,737

The above deferred revenue represents the Corporation's future obligation relating to amounts received or receivable as at December 31, 2016. The amounts related to the advance ticket sales and corporate leases will be recognized at the time the service is performed. The funding revenue will be recognized at the time the related expenditures are incurred.

14 Provisions

			2016	2015
	Maintenance	Decom-missioning	Total	Total
	$	$	$	$
Balance – Beginning of year	3,949	990	4,939	4,544
Provisions arising during the year	671	1,010	1,681	2,158
Amounts disbursed	(2,422)	-	(2,422)	(1,634)
Accretion expense	89	-	89	(129)
	2,287	2,000	4,287	4,939

Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2019 to 2023 with the average remaining lease term of approximately five years.

The decommissioning provision relates to the Ikhil natural gas well.

15 Borrowings

Bank indebtedness

The Corporation's subsidiary, NorTerra Inc. (NorTerra), has a consolidated banking arrangement, provided by a syndicate of banks, under which a $55,000 revolving operating credit facility is available that is advanced by bankers' acceptances and prime rate based loans, with interest paid monthly. As at December 31, 2016, there was cash of $32,383 (2015 – $54,402) and bank indebtedness of $70,750 (2015 – $97,415) outstanding under this facility. The weighted average interest rate on bank indebtedness under this arrangement to December 31, 2016 was 4.87% (2015 – 6.38%) and the interest rate as at December 31, 2016 was 3.61% (2015 – 5.95%). A general security agreement and a first fixed and floating charge debenture against all assets of NorTerra with a net book value of $183,884 (2015 – $261,942) are pledged as collateral. Subsequent to year-end, the net amount of cash and bank indebtedness was settled.

(in thousands of Canadian dollars)

The Corporation also has a line of credit available in the amount of $75,000 with cash of $67,783 (2015 – $27,889) and bank indebtedness of $51,188 (2015 – $43,534) outstanding as at December 31, 2016. The line bears interest at prime rate of 2.70% and is collateralized with marketable securities in the amount of $123,702 (2015 – $118,494).

Subsequent to year-end, two new lines of credit were obtained in the amounts of $20,000 for NorTerra's subsidiary, Weldco-Beales Manufacturing Inc., and $20,000 for NorTerra's subsidiary, Canadian North Inc. The lines of credit can be advanced by either prime rate loans or bankers' acceptances and bear interest at prime plus 0.50% or the bankers' acceptance rate plus 2.25%. A general security agreement and a demand debenture against all assets of Weldco-Beales Manufacturing Inc. and Canadian North Inc. have been pledged as collateral. The lines of credit expire in March 2020.

Long-term debt

	2016 $	2015 $
Non-revolving term loan, repayable at $1,604 per quarter, due August 31, 2018	75,921	86,266
Term loan, repayable at $16 monthly including interest at 5.85%, due August 15, 2020	-	1,847
Revolving credit facility	-	5,095
	75,921	93,208
Less: Current portion	75,921	13,201
	-	80,007

The non-revolving term loan is advanced by bankers' acceptances and prime rate based loans with interest paid monthly. Additional repayments will be required if financial results exceed certain parameters during the period outstanding. Net proceeds from the sale of assets (other than inventory) must also be directed toward principal repayment. The weighted average interest rate on the non-revolving term loan was 5.57% (2015 – 6.37%) and the interest rate as at December 31, 2016 was 4.11% (2015 – 5.26%). A general security agreement and a first fixed and floating charge debenture against all assets of NorTerra with a net book value of $183,884 (2015 – $261,942) are pledged as collateral.

As at December 31, 2016, NorTerra was in violation of certain non-financial covenants and the debt has been classified as current. Subsequent to year-end, the debt was settled.

The term loan and revolving credit facility were disposed of when the Corporation lost control of Northern Transportation Company Limited (note 25).

Finance lease obligations

	2016 $	2015 $
Minimum lease payments		
No later than 1 year	1,161	4,027
Later than 1 year and no later than 5 years	5,284	14,613
Later than 5 years	16,129	17,449
	22,574	36,089
Future finance charges on finance lease obligations	8,248	10,333
Present value of finance lease obligations	14,326	25,756
Less: Current portion	319	2,086
	14,007	23,670

(in thousands of Canadian dollars)

The present value of finance lease liabilities is as follows:

	2016 $	2015 $
No later than 1 year	319	2,086
Later than 1 year and no later than 5 years	2,151	11,225
Later than 5 years	11,856	12,445
	14,326	25,756

The Corporation leases various buildings under non-cancellable finance lease agreements. The lease terms are 16 years at an interest rate of 6.00%. The finance lease obligations are secured by assets with a net book value of $13,270 (note 10).

Note payable

	2016 $	2015 $
Note payable	6,000	8,000
Less: Discount	173	385
	5,827	7,615
Less: Current portion	2,000	2,000
	3,827	5,615

The note payable is secured by 50% of the Corporation's shares in NorTerra and bears no interest. The note payable is due in annual instalments of $2,000 on February 1 of each year from 2017 – 2019.

16 Pension Obligations

The Corporation's subsidiary, NorTerra, operated a defined benefit pension plan and other employee future benefits, including retiree life insurance and contractual severance, for certain employees until Northern Transportation Company Limited filed for bankruptcy on December 30, 2016 (note 25). Movements in the pension plan related to Northern Transportation Company Limited are included in discontinued operations.

As at December 31, 2016, other employee future benefits consist of supplemental pension obligations provided to certain former employees. This plan is unfunded and is closed to new members.

(in thousands of Canadian dollars)

The following table summarizes the information related to the defined benefit pension plan and other employee future benefits.

	Pension benefits			Other employee future benefits
	Present value of obligation $	**Fair value of assets $**	**Net obligation $**	**$**
As at January 1, 2015	108,890	(95,511)	13,379	4,380
Current service cost	-	-	-	30
Interest expense	-	-	-	95
Discontinued operations	5,210	(3,330)	1,880	122
	5,210	(3,330)	1,880	247
Remeasurements				
Return on plan assets, excluding amounts included in interest income	-	(1,838)	(1,838)	-
Gain from change in financial assumptions	(612)	-	(612)	-
Experience losses	950	-	950	-
	338	(1,838)	(1,500)	-
Employer contributions	-	(4,244)	(4,244)	-
Participant contributions	349	(349)	-	-
Benefits paid	(5,686)	5,686	-	(290)
	(5,337)	1,093	(4,244)	(290)
As at December 31, 2015	109,101	(99,586)	9,515	4,337
Current service cost	-	-	-	26
Discontinued operations	(109,101)	99,586	(9,515)	(1,504)
	(109,101)	99,586	(9,515)	(1,478)
Benefits paid	-	-	-	(198)
As at December 31, 2016	-	-	-	2,661

The amounts recognized in the consolidated statement of financial position are determined as follows:

	2016 $	**2015 $**
Defined benefit pension plan	-	9,515
Other employee future benefits	2,661	4,337
	2,661	13,852

(in thousands of Canadian dollars)

17 Income Taxes

The Corporation is exempt from income taxes; however, its subsidiaries are subject to income taxes. The components of the income tax recovery are as follows:

	2016 $	2015 $
Income tax expense at statutory rate	1,485	2,959
Adjusted for the tax effect of the following items		
Dividend income not subject to Part I tax	(904)	(870)
Non-deductible (non-taxable) portion of capital losses (gains)	12,712	(1,444)
Recognition of deferred tax asset on net capital losses	(27,866)	-
Non-taxable portion of change in fair value of financial assets	(1,672)	(1,038)
Foreign tax credits	(208)	(129)
Refundable Part I and Part IV taxes	931	(24,437)
Loss from a tax-exempt entity	166	-
Reversal of deferred tax on a tax-exempt entity	-	(565)
Non-deductible items and other	(86)	(284)
Adjustment in respect of prior years	(1,838)	110
Remeasurement of deferred tax – impact of substantively enacted rates	2,662	(9)
	(14,618)	(25,707)

The applicable statutory rate was 26.5% (2015 – 26.5%).

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2016 $	2015 $
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	(27,615)	(11,556)
Deferred tax assets to be recovered within 12 months	(894)	(982)
	(28,509)	(12,538)
Deferred tax liabilities		
Deferred tax liabilities to be realized after more than 12 months	33,145	29,168
Deferred tax liabilities to be realized within 12 months	-	150
	33,145	29,318
Deferred tax liabilities – net	4,636	16,780

The movement of deferred income tax assets and liabilities during the year is as follows:

Deferred tax assets	Investments, loans and advances $	Net capital losses and non-capital losses $	Finance lease obligations $	Financing $	Other $	Total $
As at January 1, 2015	(1,886)	(11,023)	(4,302)	-	(1,334)	(18,495)
Charged (credited) to the income statement	669	(1,374)	(147)	(191)	(439)	(1,482)
Discontinued operations	-	6,954	142	(25)	368	7,439
As at December 31, 2015	(1,167)	(5,443)	(4,307)	(216)	(1,405)	(12,538)
Charged (credited) to the income statement	(225)	(18,635)	45	(293)	545	(18,563)
Discontinued operations	-	2,648	392	25	(473)	2,592
As at December 31, 2016	(1,392)	(21,430)	(3,870)	(484)	(1,333)	(28,509)

(in thousands of Canadian dollars)

Deferred tax liabilities	Property, plant and equipment and income-producing real estate $	Marketable securities $	Goodwill and intangible assets $	Financing $	Other $	Total $
As at January 1, 2015	9,962	18,351	3,276	1,195	296	33,080
Charged (credited) to the income statement	(2,414)	886	(941)	(1,195)	(146)	(3,810)
Discontinued operations	39	-	9	-	-	48
As at December 31, 2015	7,587	19,237	2,344	-	150	29,318
Charged (credited) to the income statement	(273)	4,839	(575)	-	(150)	3,841
Discontinued operations	(291)	-	277	-	-	(14)
As at December 31, 2016	7,023	24,076	2,046	-	-	33,145

As at December 31, 2016, the Corporation has approximately $37,319 of non-capital losses and approximately $51,693 in net capital losses available to reduce future years' income for tax purposes (subject to confirmation by income tax authorities). The non-capital losses expire as follows:

	$
December 31	
2025	26
2026	325
2027	-
2028	294
2029	339
2030	69
2031	1,964
2032	2,427
2033	2,594
2034	7,055
2035	3,398
2036	18,828

The potential benefit relating to $9,753 of these non-capital losses has not been reflected in these consolidated financial statements.

The net capital losses may only be applied to reduce future taxable capital gains and are not subject to expiry.

The Corporation has also not recognized a deferred tax asset related to the pension obligation in the amount of $717 (2015 – $3,740), as it is not expected to be recoverable.

18 Commitments and Contingencies

Guarantees

The Corporation has provided a joint and several guarantee of $350 relating to performance in Arctic Oil & Gas Services Inc.

The Corporation has provided guarantees totalling $nil (2015 – $4,750) relating to Pan Arctic Inuit Logistics Corporation, an equity investment, which represents 9.50% of the total guarantee for the North Warning System operation and maintenance agreement with Public Works & Government Services Canada. No amounts have been recorded in the consolidated financial statements for amounts owing under this guarantee.

Director and officer indemnification agreements

The Corporation has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by them as a result of any lawsuit or any other judicial, administrative or investigative proceedings in which they are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period.

(in thousands of Canadian dollars)

The nature of the indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Corporation has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

Letters of credit

The Corporation's subsidiary, NorTerra, has letters of credit outstanding of $2,595 (2015 – $2,682) relating to a credit facility that was settled after year-end. The Corporation has a letter of credit facility included in its $75,000 line of credit and a separate $10,000 letter of credit facility that is secured by an assignment of rents and accounts receivable, along with a $15,000 fixed and floating debenture. As at December 31, 2016, letters of credit outstanding under these two facilities were $11,435 (2015 – $11,868), of which $8,685 was settled after year-end. The total amount outstanding under all letter of credit facilities is $14,030 (2015 – $14,550).

Commitments

The Corporation leases various offices, buildings, property, aircraft and other equipment under non-cancellable operating lease agreements. The majority of the lease agreements are renewable at the end of the lease period at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	$
No later than 1 year	15,758
Later than 1 year and no later than 5 years	45,171
Later than 5 years	19,942
	80,871

19 Capital Transfers

The Inuvialuit have received $152,000 of financial compensation provided for in the IFA. The final payment was received in 1997. During 2016, the Corporation distributed $2,423 (2015 – $2,547) to the Inuvialuit beneficiaries. These capital distributions were made in accordance with the Corporation's distribution policy.

The Corporation's objectives when managing capital are to maintain capital to sustain and grow the Corporation's operations and provide a return of capital to the beneficiaries. Management develops the capital strategy and oversees the capital management processes. The Corporation has defined capital as capital transfers and retained earnings. There has been no change in capital management from the prior year.

20 Development Revenue

Included in development revenue are the following amounts:

	2016 $	2015 $
Air transportation	207,960	239,065
Manufacturing	64,259	65,341
Groceries	19,223	19,318
Real estate	3,750	3,978
Oil and gas	-	3,589
Management fees and other	1,260	478
	296,452	331,769

(in thousands of Canadian dollars)

21 Expenses by Nature

Included in development and general and administrative expenses are the following:

	2016 $	2015 $
Operating expenses – income-producing real estate	2,451	2,681
Operating lease payments	27,618	30,962
Pension expense – defined benefit	26	125
Pension expense – defined contribution	2,021	2,999
Salaries and wages	93,694	97,125
Foreign exchange loss (gain)	474	(2,291)

22 Finance Expense

Included in finance expense are the following:

	2016 $	2015 $
Interest on long-term debt	4,537	6,847
Interest on bank indebtedness	2,554	3,244
Interest on finance lease obligations	747	846
Financing fees	482	112
Other	178	372
	8,498	11,421

23 Related Party Balances and Transactions

The amounts recognized in the consolidated statement of financial position are as follows:

	Relationship	2016 $	2015 $
Nappaq Construction Ltd.	associate	696	(47)
Pan Arctic Inuit Logistics Corporation	associate	437	-
Arctic Oil & Gas Services Ltd.	associate	285	311
Aklak Inc.	associate	267	(43)
Northern Aboriginal Services Corporation	associate	150	81
Other affiliates	Common control	74	228
		1,909	530

The amounts recognized in the consolidated statement of comprehensive income are as follows:

	Relationship	Transaction	Recorded as	2016 $	2015 $
Northern Aboriginal Services Corporation	associate	management services	operating revenue	155	147
Inukshuk Geomatics Inc.	associate	management services	operating revenue	36	71
IEG Consultants Ltd.	associate	management services	operating revenue	17	15
Aklak Inc.	associate	management services	operating revenue	188	-
Aklak Inc.	associate	royalty fees	operating revenue	179	174
Nappaq Construction Ltd.	associate	commissions	operating revenue	675	20

(in thousands of Canadian dollars)

The amounts recognized in equity are as follows:

	Relationship	Transaction	Recorded as	2016 $	2015 $
Inuvialuit Trust	shareholder	capital distribution	capital stock	(2,423)	(2,547)

Payment terms on amounts due from (to) related parties are similar to those established in transactions with third parties.

Compensation awarded to directors and key management personnel for employee services included:

	2016 $	2015 $
Salaries and short-term employee benefits	2,240	2,320

24 Financial Instruments and Fair Values

Fair values

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in net income or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables and, for liabilities, amortized cost. The following table shows the fair value and carrying values of assets and liabilities for each of these categories as at December 31, 2016 and 2015.

	2016		2015	
	Fair value $	Carrying amount $	Fair value $	Carrying amount $
Assets				
Loans and receivables				
Cash and cash equivalents	100,214	100,214	83,651	83,651
Accounts receivable	51,033	51,033	57,880	57,880
Due from related parties	1,909	1,909	530	530
Loans and advances included in investments, loans and advances	713	713	1,181	1,181
Financial assets at fair value through profit or loss				
Marketable securities	426,950	426,950	412,845	412,845
Liabilities				
Amortized cost				
Bank indebtedness	121,938	121,938	140,949	140,949
Accounts payable and accrued liabilities	37,423	37,423	56,967	56,967
Long-term debt	75,921	75,921	93,208	93,208
Finance lease obligations	16,506	14,326	26,731	25,756
Note payable	5,973	5,827	7,955	7,615
Financial liabilities to Fixed Income Fund participants	32,027	32,027	30,101	30,101
Financial liabilities at fair value through profit or loss				
Financial liabilities to Balanced Fund participants	583	583	1,387	1,387

The fair values of cash and cash equivalents, accounts receivable, due from related parties, loans and advances, bank indebtedness and accounts payable and accrued liabilities approximate carrying value due to their short-term nature. The fair value of long-term debt and financial liabilities to Fixed Income Fund participants approximates carrying value as market rates of interest do not differ significantly for instruments with similar terms to maturity. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- The fair value of marketable securities and financial liabilities to Balanced Fund participants is determined based on the following:
  - Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Corporation determines fair values using valuation techniques and places reliance on the investment managers and analysts.
  - Investment managers use valuation techniques, which include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.
  - For more complex instruments, the Corporation's investment managers use proprietary valuation models, which usually are developed from recognized valuation models by the Corporation's advisers. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over the counter derivatives and certain securities for which there is no active market.
- The fair values of finance lease obligations and note payable are based on cash flows discounted using the Corporation's market interest rate.

The Corporation measures fair values using the following fair value hierarchy in accordance with IFRS 7, Financial Instruments – Disclosures, that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of finance lease obligations and note payable are within Level 3 of the fair value hierarchy.

(in thousands of Canadian dollars)

The table below analyzes financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized:

				2016
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Marketable securities	218,739	162,926	45,285	426,950
Financial liabilities to Balanced Fund participants	310	231	42	583

				2015
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Marketable securities	193,413	165,106	54,326	412,845
Financial liabilities to Balanced Fund participants	672	574	141	1,387

There were no transfers of assets between Levels 1, 2 or 3 in the year.

Management uses a board approved asset mix model to minimize risk and control the investment strategy. The asset mix comprises all approved investment categories, and outlines appropriate portfolio weightings for each category. Management reports to the board monthly on compliance with the approved asset mix, and if any categories are not within the pre-approved weightings, it will take corrective action.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

		2016		2015
	Unlisted equity investments $	**Financial liabilities to Balanced Fund participants $**	**Unlisted equity investments $**	**Financial liabilities to Balanced Fund participants $**
Balance – Beginning of year	54,326	141	54,529	166
Disposals	(7,467)	(98)	(1,600)	(29)
Unrealized gains	(1,574)	(1)	1,397	4
Balance – End of year	45,285	42	54,326	141

Although the Corporation believes its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

Financial risk factors

The Corporation has exposure to the following risks from financial instruments: credit risk, liquidity risk and market risk (including interest rate risk, currency risk and other price risk).

a) Credit risk

Credit risk is the risk a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Corporation, resulting in a financial loss to the Corporation. It arises principally from accounts receivable, investments in debt securities and also from derivative financial assets and balances due from brokers.

For risk management reporting purposes the Corporation considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

(in thousands of Canadian dollars)

- Management of credit risk

  The Corporation manages its accounts receivable credit risk by following a program of credit evaluation and by limiting the amount of customer credit. Impairment provisions are made for potential losses that may be incurred at the consolidated statement of financial position date.

  For investments in debt securities, the Corporation's policy over credit risk is to minimize its exposure to counterparties with a perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Corporation's Statement of Investment Policies and Goals. Included in this statement are policies that outline a maximum concentration for each investment of no more than 10% of the portfolio, and that the Corporation may own no more than 5% of the total outstanding equity of any one issuer. The policies also include a description of the minimum level of acceptable ratings for fixed income instruments as categorized by recognized rating agencies.

  Credit risk is monitored on a daily basis by the investment managers in accordance with policies and procedures in place. The Corporation's credit risks are monitored on a monthly basis by management. Where the credit risks are not in accordance with the investment policy or guidelines of the Corporation, management is obliged to rebalance the portfolio.

- Exposure to credit risk

  The Corporation's maximum credit risk exposure at the consolidated statement of financial position date is represented by the respective carrying amounts of the financial assets in the consolidated statement of financial position.

- Investment in debt securities

  Credit risk arising on debt securities is mitigated by investing primarily in investment grade rated instruments. Management reviews debt securities monthly and rebalances the portfolio where necessary.

  The Corporation may also invest in unrated debt securities whereby management assesses the credit risk of these securities using a methodology that is consistent with that used by the credit rating agency.

  As at December 31, the Corporation was invested in debt securities with the following credit quality:

Rating	**2016**	**2015**
	$	**$**
AAA	37,006	34,436
AA	40,645	39,905
A	17,645	20,327
BBB	4,532	4,082
Other	6,297	8,308
	106,125	107,058

- Balances due from brokers

  Balances due from brokers result from margin accounts, cash collateral for borrowed securities and sale transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The investment managers monitor the financial position of the brokers regularly.

- Concentration of credit risk

  The Corporation has no concentration of credit risk (2015 – two customers for 22%) in the accounts receivable balance.

  For investments in debt securities, the investment managers review credit concentration of debt securities held based on counterparties and industries.

(in thousands of Canadian dollars)

As at the reporting date, the Corporation's debt securities exposures were concentrated in the following industries:

	2016 %	2015 %
Governments	61	54
Finance	10	12
Mortgage-backed securities	3	3
Other	26	31

There were no significant concentrations in this portfolio of credit risk to any individual issuer or group of issuers as at December 31, 2016.

- Settlement risk

The Corporation's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

The aging analysis of accounts receivable is as follows:

	2016 $	2015 $
0 to 30 days	17,490	30,266
31 to 60 days	11,710	4,817
61 to 90 days	1,801	8,896
Over 90 days	2,283	5,204
	33,284	49,183
Provision for impairment	(440)	(1,797)
Accounts receivable	32,844	47,386
Other receivables	18,189	10,494
Accounts and other receivables	51,033	57,880

Accounts receivable with an indication of possible impairment primarily relate to customers that are in difficult financial situations. The Corporation has determined on a customer by customer basis that impairment provisions of $440 (2015 – $1,797) are sufficient to cover credit risk.

The movement in the Corporation's provision for impairment of accounts receivable is as follows:

	2016 $	2015 $
Provision for impairment – Beginning of year	1,797	1,736
Amounts written off	(964)	(571)
Amounts allowed for	44	632
Amounts received	(437)	-
Provision for impairment – End of year	440	1,797

For investments in debt securities, the Corporation mitigates this risk by conducting settlements through a broker to ensure a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes described earlier. As at the reporting date, the Corporation had no investments in debt securities that were past due.

b) Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Corporation.

(in thousands of Canadian dollars)

- Management of liquidity risk

The Corporation's policy and the investment managers' approach to managing liquidity is to have sufficient liquidity to meet its liabilities, as and when due, without incurring undue losses or risking damage to the Corporation's reputation.

The Corporation's financial assets include unlisted equity investments, which generally are illiquid. In addition, the Corporation holds investments in unlisted open ended investment funds, which are exposed to the risk of side pockets or redemption restrictions being imposed. As a result, the Corporation may not be able to liquidate quickly some of its investments in these instruments in order to meet its liquidity requirements.

The Corporation's listed securities are considered to be readily realizable as they are all listed on major stock exchanges.

The Corporation's liquidity risk is managed on a monthly basis by management in accordance with policies and procedures in place and approved in the Statement of Investment Policies and Goals.

The table below shows the undiscounted cash flows of the Corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross amounts include interest payable where appropriate. The Corporation's expected cash flows on these instruments do not vary significantly from this analysis.

				2016
	Carrying amount $	**Less than one year $**	**One to three years $**	**Over three years $**
Bank indebtedness	121,938	121,938	-	-
Accounts payable and accrued liabilities	37,423	37,423	-	-
Long-term debt	75,921	75,921	-	-
Finance lease obligations	14,326	1,161	2,642	18,771
Note payable	5,827	2,000	4,000	-
Financial liabilities to Fixed Income Fund participants	32,027	32,027	-	-
Financial liabilities to Balanced Fund participants	583	-	-	583
Guarantees	350	350	-	-
Letters of credit	14,030	14,030	-	-

				2015
	Carrying amount $	**Less than one year $**	**One to three years $**	**Over three years $**
Bank indebtedness	140,949	140,949	-	-
Accounts payable and accrued liabilities	56,967	56,967	-	-
Long-term debt	93,208	17,753	85,050	1,800
Finance lease obligations	25,756	4,027	11,970	20,092
Note payable	7,615	2,000	6,000	-
Financial liabilities to Fixed Income Fund participants	30,101	30,101	-	-
Financial liabilities to Balanced Fund participants	1,387	-	-	1,387
Guarantees	4,750	4,750	-	-
Letters of credit	14,550	14,550	-	-

(in thousands of Canadian dollars)

c) Market risk

Market risk is the risk changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

- Management of market risk

  The Corporation's strategy for the management of market risk is driven by the Corporation's investment objectives. The Corporation's market risk is managed on a daily basis by the investment managers in accordance with policies and procedures in place. The Corporation's market positions are monitored on a monthly basis by management and the board of directors.

- Exposure to market risk

  The market risk of the Corporation's financial asset and liability positions is monitored by the investment managers and is reported to management.

- Exposure to interest rate risk

  The Corporation is exposed to the risk the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. The Corporation is primarily exposed to interest rate risk on bank indebtedness, financial liabilities to Fixed Income Fund participants and long-term debt, all of which have a component of interest that is variable. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2016 would have increased or decreased net income, net of tax, for the year ended December 31, 2016 by $1,678 (2015 – $1,942).

- Exposure to currency risk

  The Corporation invests in financial instruments and enters into transactions denominated in currencies other than its functional currency. Consequently, the Corporation is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the Corporation's financial assets or liabilities denominated in currencies other than the Canadian dollar.

  The Corporation's policy with respect to managing its currency risk is to limit its total foreign currency exposure where possible, with guidance from the external managers and advisers. The Corporation's currency risk is managed on a daily basis by the investment managers in accordance with policies and procedures in place. The Corporation's currency positions and exposures are monitored on a monthly basis by management.

  At the reporting date, the carrying values of the Corporation's financial assets and liabilities held in individual foreign currencies as a percentage of its net assets were as follows:

	2016	**2015**
	%	**%**
US dollar	18.45	17.10

- Exposure to other price risk

  Other price risk is the risk the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments in the market.

  The Corporation is primarily exposed to other price risk on its marketable securities. Price risk is managed by the investment managers by diversifying the portfolio and economically hedging using derivative financial instruments such as options or futures contracts.

  The Corporation's price risk is monitored on a monthly basis by management. Where the price risks are not in accordance with the investment policy or guidelines of the Corporation, management is required to rebalance the portfolio as quickly as possible. A 1% change in the fair value of the marketable securities would increase or decrease net income, net of tax, by $3,117 (2015 – $3,055).

(in thousands of Canadian dollars)

25 Discontinued Operations

Disposal of Braden-Burry Expediting Ltd.

On August 31, 2016, the Corporation sold the net assets of Braden-Burry Expediting Ltd. (BBE), a subsidiary of NorTerra, for proceeds of $6,019. The carrying amounts of assets and liabilities as at the date of sale were:

	August 31, 2016
	$
Accounts receivable	4,643
Other assets	126
Property, plant and equipment	7,001
Total assets	11,770
Accounts payable	3,247
Total liabilities	3,247
Net assets	8,523

The loss on dispoal of BBE was determined as follows:

	August 31, 2016
	$
Cash consideration	6,019
Carrying amount of net assets sold	8,523
Loss on disposal	(2,504)

Disposal of Northern Industrial Sales Ltd.

On September 19, 2016, the Corporation sold the net assets of Northern Industrial Sales Ltd. (NIS), a subsidiary of NorTerra, for proceeds of $8,396. The carrying amounts of assets and liabilities as at the date of sale were:

	September 19, 2016
	$
Accounts receivable	4,918
Inventories	9,408
Property, plant and equipment	1,040
Other assets	221
Total assets	15,587
Accounts payable	4,995
Finance lease obligations	96
Total liabilities	5,091
Net assets	10,496

The loss on disposal of NIS was determined as follows:

	September 19, 2016
	$
Cash consideration	8,396
Carrying amount of net assets sold	10,496
Loss on disposal	(2,100)

Loss of control of Northern Transportation Company Limited

(in thousands of Canadian dollars)

On December 30, 2016, Northern Transportation Company Limited (NTCL), a subsidiary of NorTerra, filed an assignment in bankruptcy under Section 49 of the Bankruptcy and Insolvency Act and a trustee was appointed by the Office of the Superintendent of Bankruptcy. As a result of the bankruptcy filing, NorTerra lost voting power over NTCL, its variable rights to returns and its ability to influence any returns from NTCL. This resulted in a loss of control of NTCL. From December 30, 2016, NTCL has been deconsolidated from the Corporation's consolidated financial statements.

On deconsolidation, the investment in NTCL was recorded at its fair value of $nil. NTCL is prospectively accounted for at cost. Furthermore, circumstances indicated that as at December 30, 2016, certain amounts due from NTCL would not be recoverable and accordingly the Corporation recorded a full impairment of amounts due from NTCL, less $9,589 that was recovered after year-end.

The carrying amount of assets and liabilities as at the date of deconsolidation were:

	December 30, 2016 $
Cash	13,540
Accounts receivable	2,477
Inventories	4,408
Property, plant and equipment	2,039
Other assets	340
Total assets	22,804
Accounts payable	3,387
Long-term debt	5,035
Pension obligations	9,515
Total liabilities	17,937
Net assets	4,867

The gain on deconsolidation of NTCL was determined as follows:

	December 30, 2016 $
Amounts recovered on intercompany loans	9,589
Carrying amount of net assets	4,867
Gain on deconsolidation	4,722

(in thousands of Canadian dollars)

Results of discontinued operations

The operating results and loss on disposal relating to BBE and NIS and loss on deconsolidation of NTCL have been included in loss from discontinued operations in the consolidated statement of comprehensive loss.

				2016
	BBE **$**	**NIS** **$**	**NTCL** **$**	**Total** **$**
Revenue	11,339	23,415	36,039	70,793
Expenses	11,022	23,845	51,234	86,101
Income (loss) before income taxes	317	(430)	(15,195)	(15,308)
Income tax (recovery) expense	(458)	2,710	120	2,372
Income (loss) after income tax of discontinued operations	775	(3,140)	(15,315)	(17,680)
(Loss) gain on disposal/deconsolidation after income taxes	(2,504)	(2,100)	4,722	118
Other comprehensive loss from discontinued operations	(1,729)	(5,240)	(10,593)	(17,562)

				2015
	BBE **$**	**NIS** **$**	**NTCL** **$**	**Total** **$**
Revenue	14,144	30,367	43,833	88,344
Expenses	14,704	31,815	57,420	103,939
Loss before income taxes	(560)	(1,448)	(13,587)	(15,595)
Income tax (recovery) expense	(82)	(153)	7,722	7,487
Loss from discontinued operations	(478)	(1,295)	(21,309)	(23,082)
Actuarial gain on pension obligations	-	-	1,500	1,500
Other comprehensive loss from discontinued operations	(478)	(1,295)	(19,809)	(21,582)

Community Corporations

Aklavik Community Corporation
P.O. Box 119
Aklavik, NT X0E 0A0

Tel: 867.978.2414
Fax: 867.978.2815
Email: accmanager@inuvialuitcc.com

Inuvik Community Corporation
P.O. Box 1365
Inuvik, NT X0E 0T0

Tel: 867.777.2603
Fax: 867.777.4422
E-mail: iccmanager@inuvialuitcc.com

Paulatuk Community Corporation
P.O. Box 92
Paulatuk, NT X0E 1N0

Tel: 867.580.3601
Fax: 867.580.3508
Email: pccmanager@inuvialuitcc.com

Sachs Harbour Community Corporation
P.O. Box 59
Sachs Harbour, NT X0E 0Z0

Tel: 867.690.3025
Fax: 867.690.4905
Email: sachs.manager@gmail.com

Tuktoyaktuk Community Corporation
P.O. Box 290
Tuktoyaktuk, NT X0E 1C0

Tel: 867.977.2390
Fax: 867.977.2504
Email: manager@tukcommunitycorp.com

Ulukhaktok Community Corporation
P.O. Box 161
Ulukhaktok, NT X0E 0S0

Tel: 867.396.4701
Fax: 867.396.3284
Email: uccmanager@inuvialuitcc.com

2017 IRC Board of Directors: *Lawrence Ruben, Vernon Amos, Jordan McLeod, Gerald Inglangasuk, Colin Okheena, Eddie Dillon and Duane Smith.*

Corporate Information

Inuvialuit Regional Corporation
Bag Service #21, Inuvik, NT X0E 0T0

Tel: 867.777.7000
Toll-free: 1.855.777.7011
Fax: 867.777.7001
E-mail: info@inuvialuit.com

2017 Board of Directors

Duane Smith	Chair and CEO
Gerald Inglangasuk	Vice-Chair
Eddie Dillon	Secretary/Treasurer
Vernon Amos	Director
Jordan McLeod	Director
Jack Akhiatak/Colin Okheena	Director
Lawrence Ruben	Director

2016 Board of Directors

Duane Smith	Chair and CEO
Vernon Amos	Vice-Chair
Gerald Inglangasuk	Secretary/Treasurer
Eddie Dillon	Director
Jordan McLeod	Director
Colin Okheena	Director
Lawrence Ruben	Director

Subsidiary Corporations and Agencies

Inuvialuit Development Corporation
Bag Service #7, Inuvik, NT X0E 0T0
Wayne Gordon, Chair (2016)
Patrick Gruben, Chair (2017)

Tel: 867.777.7000
Toll-free: 1.855.777.7011
Fax: 867.777.3256
E-mail: info@inuvialuit.com

Inuvialuit Investment Corporation
Bag Service #21, Inuvik, NT X0E 0T0
Floyd Roland, Chair

Tel: 867.777.7000
Fax: 867.777.7001
E-mail: info@inuvialuit.com

Inuvialuit Petroleum Corporation
Bag Service #21, Inuvik, NT X0E 0T0

Tel: 867.777.7000
Toll-free: 1.855.777.7011
Fax: 867.777.7001
E-mail: info@inuvialuit.com

Inuvialuit Land Administration Commission
P.O. Box 290, Tuktoyaktuk, NT X0E 1C0
Albert Elias, Chair (2016)

Tel: 867.977.7100
Fax: 867.977.7101
E-mail: ilainfo@inuvialuit.com

Inuvialuit Land Administration
P.O. Box 290, Tuktoyaktuk, NT X0E 1C0

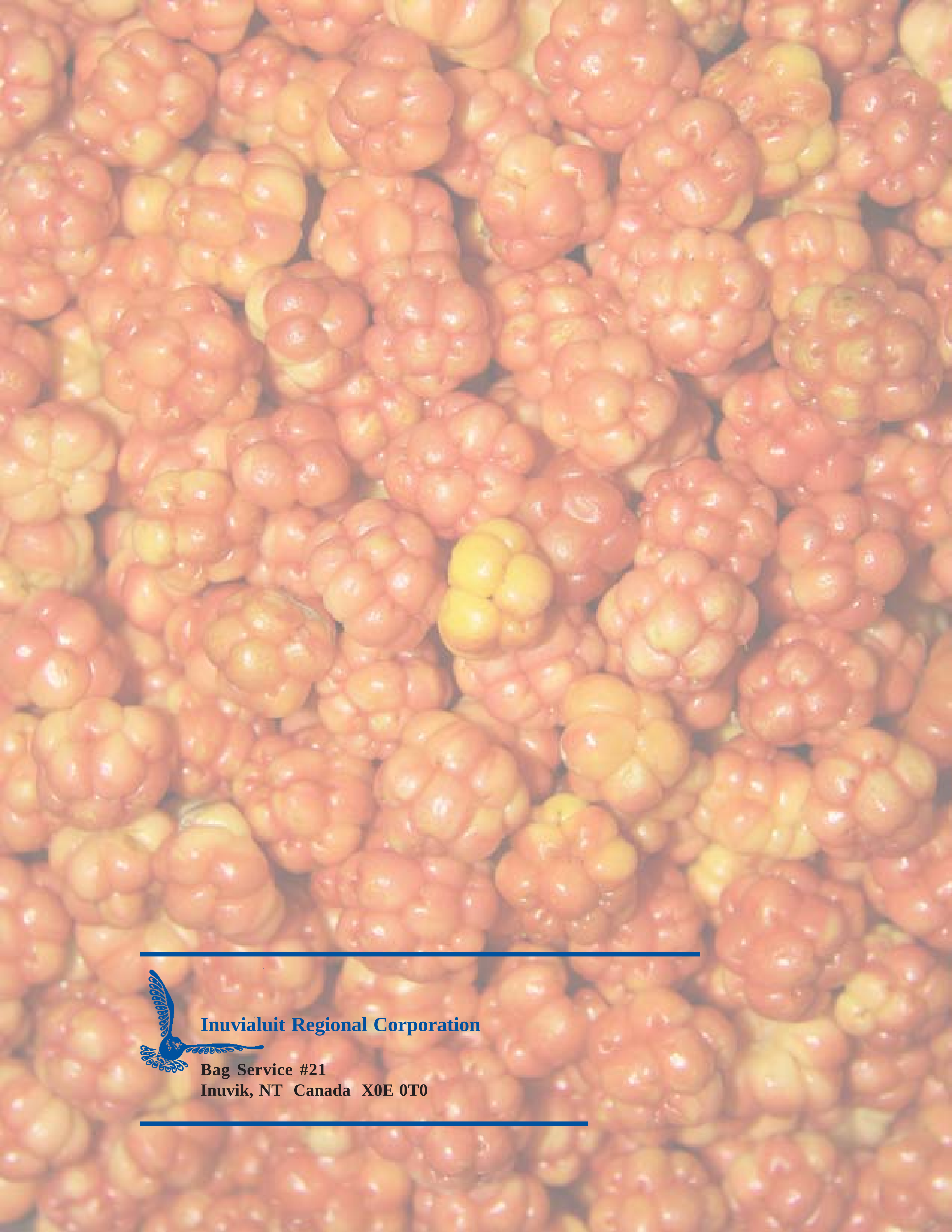
Tel: 867.977.7100
Fax: 867.977.7101
E-mail: ilainfo@inuvialuit.com

Community Development Division
Bag Service #21, Inuvik, NT X0E 0T0

Tel: 867.777.7000
Fax: 867.777.7001
E-mail: info@inuvialuit.com

Inuvialuit Cultural Resource Centre
Bag Service #21, 292 Mackenzie Road
Inuvik, NT X0E 0T0

Tel: 867.777.2595
Fax: 867.777.2799
E-mail: icrc@inuvialuit.com



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Bag Service #21
Inuvik, NT Canada X0E 0T0