Inuvialuit Regional Corporation

Financial Report 2017

Auditors

PricewaterhouseCoopers LLP
Edmonton, AB

INUVIALUIT
REGIONAL CORPORATION

Inuvialuit Regional Corporation

Consolidated Financial Statements
December 31, 2017
(in thousands of Canadian dollars)

April 17, 2018

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, 2017 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.

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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, 2017 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

Inuvialuit Regional Corporation

Consolidated Statement of Financial Position

As at December 31, 2017

(in thousands of Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash and cash equivalents	105,625	100,214
Accounts receivable	47,612	51,033
Due from related parties (note 23)	1,722	1,909
Inventories (note 5)	20,725	22,697
Prepaid expenses	5,457	6,048
Assets held-for-sale (note 6)	-	5,502
	181,141	187,403
Non-current assets		
Investments, loans and advances (note 7)	1,631	1,575
Marketable securities (note 8)	481,566	426,950
Property, plant and equipment (note 10)	110,019	110,641
Income-producing real estate (note 11)	5,994	6,212
Goodwill and intangible assets (note 12)	18,037	14,401
	798,388	747,182
Liabilities		
Current liabilities		
Bank indebtedness (note 15)	141,259	121,938
Operating line of credit (note 15)	19,878	-
Accounts payable and accrued liabilities	41,872	37,423
Income taxes payable	547	305
Deferred revenue (note 13)	17,875	14,725
Long-term debt (note 15)	-	75,921
Finance lease obligations (note 15)	533	319
Note payable (note 15)	2,000	2,000
Financial liabilities to Fixed Income Fund participants (note 9)	36,831	32,027
	260,795	284,658
Non-current liabilities		
Financial liabilities to Balanced Fund participants (note 8)	-	583
Provisions (note 14)	4,180	4,287
Finance lease obligations (note 15)	13,274	14,007
Note payable (note 15)	1,827	3,827
Pension obligations (note 16)	2,295	2,661
Deferred income taxes (note 17)	15,950	4,636
	298,321	314,659
Equity		
Capital transfers (note 19)	115,258	117,082
Retained earnings	384,809	315,441
	500,067	432,523
	798,388	747,182

Commitments and contingencies (note 18)

Approved by the Board of Directors

[signature] Director   Eddie T. Dillon 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, 2017

(in thousands of Canadian dollars)

	2017 $	2016 $
Revenue		
Development (note 20)	348,084	296,452
Investment (note 8)	47,219	34,522
Land access and administration fees	2,625	3,242
Petroleum and natural gas	1,432	1,085
Other	2,179	2,583
Total revenue	401,539	337,884
Expenses		
Development (note 21)	269,227	253,187
General and administrative – net of recoveries (note 21)	29,669	32,279
Depreciation, amortization and depletion	18,798	20,865
Finance (note 22)	3,823	8,498
Maintenance and decommissioning provisions (note 14)	2,794	1,681
Investment management, custody and other related fees	1,280	1,266
Community corporation funding	1,766	1,277
Petroleum and natural gas	855	704
Total operating expenses	328,212	319,757
Other income (expense)		
Reversal of impairment of long-lived assets (note 12)	7,149	-
Impairment of long-lived assets	-	(12,361)
Gain (loss) on sale of long-lived assets – net	222	(790)
Equity (loss) related to associates (note 7)	66	(370)
Insurance recovery	819	-
Other	1,210	996
Total other income (expense)	9,466	(12,525)
Income before income taxes from continuing operations	82,793	5,602
Income taxes (recovery) (note 17)		
Current	2,111	104
Deferred	11,314	(14,722)
	13,425	(14,618)
Net income for the year from continuing operations	69,368	20,220
Net loss for the year from discontinued operations	-	(17,562)
Net income and comprehensive income for the year	69,368	2,658
Comprehensive income for the year relates to		
Continuing operations	69,368	20,220
Discontinued operations	-	(17,562)
	69,368	2,658

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, 2017

(in thousands of Canadian dollars)

	Capital transfers $	Retained earnings $	Total equity $
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
Balance – January 1, 2017	117,082	315,441	432,523
Comprehensive income for the year	-	69,368	69,368
Distributions to the Inuvialuit Trust	(1,824)	-	(1,824)
Balance – December 31, 2017	115,258	384,809	500,067

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, 2017

(in thousands of Canadian dollars)

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net income for the year from continuing operations	69,368	20,220
Adjustments for		
Unrealized investment revenue	(18,761)	(12,810)
Net realized gain on sale of investments	(18,103)	(6,577)
Non-recurring finance income, management fees and other	(31,763)	-
Depreciation, amortization and depletion	18,798	20,865
Amortization of discount on note payable	-	212
Finance expenses	4,693	9,077
Reversal of impairment of long-lived assets	(7,149)	-
Impairment of long-lived assets	-	12,361
(Gain) loss on sale of long-lived assets	(222)	790
Equity (loss) related to associates	(66)	370
Income tax expense (recovery)	13,425	(14,618)
Gain on disposal of businesses	-	(118)
Changes in items of working capital		
Accounts receivable	3,421	4,132
Due from related parties	187	(1,379)
Inventories	1,972	908
Prepaid expenses	591	3,768
Accounts payable and accrued liabilities	4,449	(5,274)
Deferred revenue	3,150	4,988
Provisions	(107)	(652)
Interest paid	(3,823)	(8,498)
Net (purchases) sales of marketable securities	(18,335)	4,478
Investments from Fixed Income Fund participants	3,934	1,347
Income taxes paid (recovered)	(1,869)	23,783
Excess of pension contributions over expenses	(366)	(172)
Discontinued operations	-	336
	23,424	57,537
Investing activities		
Net increase in investments, loans and advances	10	468
Proceeds from the sale of assets held for sale	5,646	-
Purchases of property, plant and equipment	(14,484)	(19,797)
Proceeds from the sale of property, plant and equipment	338	5,635
Purchases of income-producing real estate	(210)	(1,519)
Purchases of intangible assets	(11)	(18)
Disposal of businesses	-	875
Discontinued operations	-	11,387
	(8,711)	(2,969)
Financing activities		
Increase (decrease) in bank indebtedness	34,643	(10,823)
Increase in operating line of credit	19,878	-
Repayment of long-term debt	(59,480)	(10,345)
Repayment of finance lease obligations	(519)	(288)
Repayment of note payable	(2,000)	(2,000)
Distributions to beneficiaries – capital	(1,824)	(2,423)
Discontinued operations	-	(12,126)
	(9,302)	(38,005)
Increase in cash and cash equivalents during the year	5,411	16,563
Cash and cash equivalents – Beginning of year	100,214	83,651
Cash and cash equivalents – End of year	105,625	100,214

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 without share capital, is controlled and directed by elected representatives of the six Inuvialuit Community Corporations. IRC was established to hold 100% of the voting shares of all corporate entities created to hold the lands and financial compensation. The Inuvialuit Trust was established to hold 100% of the non-voting earnings-entitlement shares of the corporate entities. Eligible individual Inuvialuit beneficiaries hold units of the Inuvialuit Trust.

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 at April 17, 2018, 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.

(in thousands of Canadian dollars)

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
4339274 Canada Inc.
Canadian North Inc.
Weldco-Beales Manufacturing Inc.
Aklak Air Ltd.
Oceanside Village Developments Inc.
Stanton Group Ltd.

Associates

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

Joint ventures

Inuvik Gas Ltd. (33%)
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%)
Akita Equtak Drilling Ltd. (50%)
Nappaq Construction Ltd. (51%)
Mackenzie Integrated Tubular Solutions Inc. (50%)
Inuvialuit BBE Expediting Ltd. (51%)

Joint operations

Rig 60 JV
Rig 61 JV
Rig 63 JV

- 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 from the date control ceases. Intercompany transactions, balances and unrealized gains or losses on transactions between the Corporation and 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.

(in thousands of Canadian dollars)

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.

(in thousands of Canadian dollars)

- 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 as financial assets at fair value through profit or loss. This category has two subcategories: 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 cash accounts are classified as loans and receivables.

  Bank indebtedness, operating line of credit, accounts payable and accrued liabilities, finance lease obligations, note 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.

(in thousands of Canadian dollars)

- 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 is 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.

(in thousands of Canadian dollars)

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of raw materials, work-in-progress, finished goods, merchandise 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 depreciated 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.

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

(in thousands of Canadian dollars)

Assets	**Method**	**Useful lives or percentage per year**
Leased aircraft improvements	straight-line	5 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 are adjusted if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in gain (loss) on sale of long-lived assets 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 five to 20 years).

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 are tested for impairment on an annual basis.

(in thousands of Canadian dollars)

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, other than goodwill impairment losses, for potential reversals 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.

(in thousands of Canadian dollars)

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

  A subsidiary of 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 obligation 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.

(in thousands of Canadian dollars)

- 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

Air transportation revenue is recognized when the air transportation service is provided. A liability is recorded for ticket sales for which the funds have been received or are receivable by the Corporation before the year-end but the provision of services will not occur until after the commencement of the next fiscal year.

Manufacturing revenue from the sale of products is recognized when the product is shipped or the customer has been notified to arrange shipping. Service revenue is recognized at the time the service is performed.

Grocery revenue is recognized when goods are shipped or picked up by the customers.

Real estate revenue is recognized as revenue as facility rental accommodations are provided.

Land access and administration fees revenue is recognized at the time the service is performed. Cash received in advance of the service being performed is recorded as deferred revenue.

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

Other revenue is recognized at the time the service is performed or when title passes to the customer.

Investment income

Investment income 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.

- Unrealized gains and losses

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

(in thousands of Canadian dollars)

- 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.

- Partnership income

  Partnership income includes all amounts received and receivable from partnerships and private placements. 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 investment 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 reasonable assurance 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.

(in thousands of Canadian dollars)

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.

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.

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.

(in thousands of Canadian dollars)

- 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.

(in thousands of Canadian dollars)

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 voting 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 do not have any significant restrictions imposed on them related to the redemption of units. Eight 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, KingSett Canadian Real Estate Income Fund LP, Greystone Managed Investments and Manulife Canadian Real Estate Fund, 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 are 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 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. Fair value less costs of disposal is calculated based on a multiplication of earnings approach, which requires management to make assumptions regarding multipliers. Refer to note 12 for additional information.

5 Inventories

	2017 $	2016 $
Raw materials	2,297	2,321
Work-in-progress	2,957	1,122
Finished goods	6,635	7,433
Merchandise	1,568	1,663
Supplies	5,112	7,242
Other	2,156	2,916
	20,725	22,697

Inventory expensed during the year of $53,047 (2016 – $43,766) has been included in development expenses.

6 Assets held-for-sale

	2017 $	2016 $
Aircraft	-	1,574
Marine equipment	-	3,928
	-	5,502

(in thousands of Canadian dollars)

During the year, the assets held-for-sale were sold for proceeds of $5,646 and a gain of $144 was recognized in the consolidated statement of comprehensive income.

7 Investments, loans and advances

	2017 $	2016 $
Investments in associates and joint ventures		
Inuvik Gas Ltd.	180	180
Ikhil Joint Venture	-	-
Aklak Inc.	520	472
Arctic Oil & Gas Service Inc.	-	-
Pan Arctic Inuit Logistics Corporation	-	-
Northern Aboriginal Services Corporation	92	92
Inuvialuit Oilfield Services Ltd.	82	82
IEG Consultants Ltd.	-	-
Akita Equtak Drilling Ltd.	25	25
Mackenzie Integrated Tubular Solutions Inc.	7	7
Inukshuk Geomatics Inc.	-	-
Nappaq Construction Ltd.	-	-
Inuvialuit BBE Expediting Ltd.	22	4
	928	862
Loans and advances to affiliates		
Aklak Inc.	407	407
Mackenzie Valley Aboriginal Pipeline Corporation	296	296
Inuvialuit Craft Shop Ltd.	-	10
	703	713
	1,631	1,575

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., 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.

(in thousands of Canadian dollars)

Joint ventures

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

	2017 $	2016 $
Aklak Inc.	48	(21)
Nappaq Construction Ltd.	-	(353)
Inuvialuit BBE Expediting Ltd.	18	4
	66	(370)

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 2017. The unrecognized share of net loss for this joint venture is $82 for the year ended December 31, 2017 (2016 – income of $76) and the cumulative unrecognized loss is $512 (2016 – $430).

Loans and advances to affiliates

Loans and advances to affiliates are unsecured and have no fixed terms for repayment. The loan and advance to Aklak Inc. bears interest at prime plus 0.5%. The loan and advance to Mackenzie Valley Aboriginal Pipeline Corporation is non-interest bearing.

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.

(in thousands of Canadian dollars)

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.

	2017 $	2016 $
Financial assets held-for-trading		
Equity securities	287,003	255,929
Debt securities	111,168	106,125
Total financial assets held-for-trading	398,171	362,054
Designated at fair value through profit or loss		
Alternative investments	83,395	64,896
Total financial assets at fair value through profit or loss	481,566	426,950

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

	2017 $	2016 $
Cash	1,878	468
Receivable from brokers for sales	1,291	1,201
Payable to brokers for purchases	(11)	(97)
Investments at fair value through profit or loss	478,408	425,378
	481,566	426,950

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

Investment income

	2017 $	2016 $
Interest – net	1,980	1,651
Dividends	5,688	6,350
Partnership income	2,967	7,235
Other investment gains and losses	(280)	(101)
Changes in fair value of financial assets and liabilities carried at fair value through profit or loss		
Realized	18,103	6,577
Unrealized	18,761	12,810
	47,219	34,522

(in thousands of Canadian dollars)

Interest income is earned on debt securities. Interest and dividend income are reported net of withholding taxes of $237 (2016 – $208).

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:

	2017 $	2016 $
Designated at fair value through profit or loss	(917)	76
Held-for-trading	19,678	12,734
	18,761	12,810

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), the Blair Franklin Global Credit Fund LP (Blair Franklin), RP Investment Advisors (RPIA), Greystone Managed Investments (Greystone), and Manulife Canadian Real Estate Investment Fund (Manulife). Details of these funds are included below:

	Fund type	Ownership interest %	Capital committed $	Investment period	2017 distributions $	Remaining commitment $	Fair value $
BHEP III	limited partnership	1.2	5,000	Dec. 31, 2018	602	104	1,639
BHEP V	limited partnership	1.0	5,000	Dec. 31, 2019	-	4,057	820
ICAF IV	limited partnership	25.0	5,000	closed	-	-	1,595
ICAF V	limited partnership	14.7	5,000	Dec. 31, 2019	1,862	300	7,382
ICAF VI	limited partnership	3.6	5,000	Dec. 31, 2022	-	3,775	999
Blair Franklin	hedge fund	1.2	8,000	open	8,000	-	12,136
RPIA	hedge fund	0.7	8,000	open	-	-	8,341
KingSett	REIT	2.0	30,000	open	2,364	-	35,130
Greystone	REIT	2.8	10,000	Jan. 18, 2019	-	6,262	3,874
Manulife	REIT	1.6	10,000	open	-	-	10,579
Other			-		-	-	900
Total			91,000		12,828	14,498	83,395

(in thousands of Canadian dollars)

Financial liabilities to Balanced Fund participants

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

	2017 $	2016 $
Balance – Beginning of year	583	1,387
Realized income	-	52
Unrealized income	-	38
Net sales	(583)	(894)
Balance – End of year	-	583

9 Financial liabilities to Fixed Income Fund participants

Fixed Income Fund participants receive a return based on the 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 Community Economic Development Organization
- 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 $870 (2016 – $580). 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, 2016			Year ended December 31, 2017						
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Opening net book value $**	**Additions $**	**Disposals $**	**Transfers $**	**Reversal of impairment $ (note 12)**	**Depreciation $**	**Closing net book value $**
Land and land improvements	1,441	(77)	1,364	1,364	-	-	-	-	(8)	1,356
Machinery and equipment	1,754	(1,501)	253	253	41	(7)	-	-	(55)	232
Drilling equipment	18,487	(16,577)	1,910	1,910	-	(9)	-	-	(656)	1,245
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)	60,165	60,165	793	-	-	1,610	(3,509)	59,059
Aircraft	61,169	(21,281)	39,888	39,888	12,957	(204)	-	-	(10,391)	42,250
Manufacturing equipment	11,539	(6,450)	5,089	5,089	55	-	-	222	(1,277)	4,089
Office equipment	6,120	(5,030)	1,090	1,090	184	(20)	-	24	(404)	874
Automotive	2,393	(1,511)	882	882	454	(16)	-	3	(409)	914
	193,489	(82,848)	110,641	110,641	14,484	(256)	-	1,859	(16,709)	110,019

	As at December 31, 2015			Year ended December 31, 2016								
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Opening net book value $**	**Additions $**	**Disposals $**	**Transfers $**	**Transfers to assets held-for-sale $**	**Impairment $**	**Depreciation $**	**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	11,565	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

(in thousands of Canadian dollars)

Ending cost and accumulated depreciation for 2017 were as follows:

	Cost $	Accumulated depreciation $
Land and land improvements	1,441	(85)
Machinery and equipment	1,639	(1,407)
Drilling equipment	18,407	(17,162)
Petroleum and natural gas properties	3,586	(3,586)
Plant and pipeline	5,881	(5,881)
Asset retirement obligation	141	(141)
Buildings and structures	81,771	(22,712)
Aircraft	72,765	(30,515)
Manufacturing equipment	11,588	(7,499)
Office equipment	5,983	(5,109)
Automotive	2,523	(1,609)
	205,725	(95,706)

Included in property, plant and equipment are buildings with a net book value of $13,504 (2016 – $13,270) where the Corporation is a lessee under a finance lease.

11 Income-producing real estate

	As at December 31, 2016			Year ended December 31, 2017					
	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	(1,617)	90	90	-	-	(41)	49	3,988
Fisheries and Oceans Building	1,098	(1,023)	75	75	25	-	-	100	3,312
GNWT Building	1,362	(820)	542	542	43	-	(30)	555	2,311
Ed Smith Building	558	(503)	55	55	43	-	(3)	95	1,932
Billy Moore Home	345	(65)	280	280	-	-	(11)	269	1,196
Dowland Building	822	(92)	730	730	-	-	(39)	691	1,392
Coast Guard Building	2,067	(485)	1,582	1,582	-	-	(88)	1,494	5,370
	7,959	(4,605)	3,354	3,354	111	-	(212)	3,253	19,501
Residential									
Lauron Apartments	1,233	(1,034)	199	199	36	(3)	(9)	223	2,770
14 Stringer	356	(302)	54	54	-	-	(1)	53	504
16 Stringer	419	(342)	77	77	-	-	(18)	59	366
20 Stringer	335	(282)	53	53	-	-	(1)	52	613
22 Stringer	323	(274)	49	49	-	-	(3)	46	586
199-205 Loucheux	428	(234)	194	194	-	-	(18)	176	568
266-272 Mackenzie	407	(220)	187	187	-	-	(17)	170	865
Smith Apartments	685	(20)	665	665	63	-	(41)	687	2,635
3-9 Natala	249	(175)	74	74	-	-	(8)	66	795
11-17 Natala	335	(270)	65	65	-	-	(9)	56	907
19-25 Natala	342	(163)	179	179	-	-	(14)	165	761
27-33 Natala	245	(156)	89	89	-	-	(9)	80	511
35-41 Natala	216	(5)	211	211	-	-	(11)	200	554
43-49 Natala	411	(208)	203	203	-	-	(17)	186	689
Tuk Residential	179	(71)	108	108	-	-	(7)	101	427
39 Dolphin	403	(150)	253	253	-	-	(18)	235	554
90 Bompas	289	(91)	198	198	-	-	(12)	186	244
	6,855	(3,997)	2,858	2,858	99	(3)	(213)	2,741	14,349
	14,814	(8,602)	6,212	6,212	210	(3)	(425)	5,994	33,850

Ending cost and accumulated depreciation for commercial income-producing real estate (IPRE) for 2017 was $8,070 and $4,817, respectively.

(in thousands of Canadian dollars)

Ending cost and accumulated depreciation for residential IPRE for 2017 was $6,919 and $4,178, respectively.

	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 and 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

The fair value disclosure is included in Level 3 of the fair value hierarchy (see note 24 for a definition of levels). The fair value is based on a discounted cash flow model. The cash flows are forecasted over 20 years plus a residual value for the property at the end of the 20 years. The significant unobservable inputs in the Level 3 valuation are as follows:

- cash flows — based on net operating income which is revenue less direct operating expenses;
- residual value — based on the physical location, type and quality of the property; and
- discount rate — reflecting current market assessments of the uncertainty in the amount and timing of cash flows.

The Corporation recognized $3,163 (2016 – $2,881) in revenue from operating leases during the year.

(in thousands of Canadian dollars)

The future minimum lease payments receivable are as follows:

	$
No later than 1 year	2,292
Later than 1 year and no later than 5 years	2,310
Later than 5 years	70
	4,672

12 Goodwill and intangible assets

	Stanton Group Ltd. $	Settlement rights $	Trade names $	Customer relation-ships $	Computer software $	Total $
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
Year ended December 31, 2017						
Opening net book value	792	4,124	3,900	5,503	82	14,401
Additions	-	-	-	-	11	11
Disposals	-	-	-	-	(1)	(1)
Amortization for the year	-	-	-	(1,619)	(45)	(1,664)
Reversal of impairment	-	-	1,221	4,069	-	5,290
	792	4,124	5,121	7,953	47	18,037
As at December 31, 2017						
Cost	792	4,124	8,991	24,690	1,159	39,756
Accumulated amortization	-	-	-	(10,614)	(1,112)	(11,726)
Accumulated impairment	-	-	(3,870)	(6,123)	-	(9,993)
	792	4,124	5,121	7,953	47	18,037

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 carrying amount of the trade names before impairment includes $7,258 (2016 – $7,258) in the Canadian North CGU and $1,733 (2016 – $1,733) in the Weldco-Beales CGU.

(in thousands of Canadian dollars)

The recoverable amounts for the Weldco-Beales CGU for 2017 and 2016 and the Canadian North CGU for 2016 were determined based on value-in-use calculations. These calculations used pre-tax cash flow projections, based on financial budgets approved by management, covering a five-year period. Cash flows beyond the five-year period were 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.

Key assumptions used in calculating the recoverable amount based on the value-in-use calculations, which reflect past experience and current market expectations are:

	Canadian North		Weldco-Beales	
	2017 %	**2016 %**	**2017 %**	**2016 %**
Growth rate (2018)	-	(14.1)	5.0	2.5
Weighted average growth rate (2019 – 2022)	-	3.3	3.0	3.6
Terminal growth rate	-	2.0	2.0	2.0
Pre-tax discount rate	-	12.3	11.6	11.2

The recoverable amount of the Weldco-Beales CGU in 2017 was $97,104. Due to improved financial results, forecasts and general economic outlook, previous impairment losses recognized in the Weldco-Beales CGU of $7,149 were reversed (2016 – no reversal or impairment loss). The reversal of the impairment loss was allocated to the following assets:

	$
Buildings (note 10)	1,610
Manufacturing equipment (note 10)	222
Office equipment (note 10)	24
Automotive (note 10)	3
Trade names	1,221
Customer relationships	4,069
	7,149

The recoverable amount for the Canadian North CGU in 2017 was determined based on fair value less cost of disposal calculations. This calculation used a multiplication of earnings approach with the key assumption being the multipliers, which were based on historical and publicly available information of comparable companies. No impairment was recognized in 2017.

(in thousands of Canadian dollars)

13 Deferred revenue

	2017 $	2016 $
Advance ticket sales	6,511	5,386
Funding	10,157	8,021
Corporate leases	1,207	1,300
Other	-	18
	17,875	14,725

The above deferred revenue represents the Corporation's future obligation relating to amounts received as at December 31, 2017. The amounts related to 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

	2017			2016
	Maintenance $	Decom-missioning $	Total $	Total $
Balance – Beginning of year	2,287	2,000	4,287	4,939
Provisions arising during the year	2,794	-	2,794	1,681
Amounts disbursed	(2,964)	-	(2,964)	(2,422)
Accretion expense	63	-	63	89
Balance – End of year	2,180	2,000	4,180	4,287

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 four years.

The decommissioning provision relates to the Ikhil natural gas well.

15 Borrowings

Bank indebtedness

The Corporation has a line of credit available in the amount of $75,000 with cash of $99,903 (2016 – $67,783) and bank indebtedness of $141,259 (2016 – $51,188) outstanding as at December 31, 2017. The line bears interest at the prime rate, which was 3.20% at December 31, 2017, and is collateralized with marketable securities in the amount of $137,851 (2016 – $123,702).

(in thousands of Canadian dollars)

In the previous year, the Corporation's subsidiary, 4339274 Canada Inc., had a consolidated banking arrangement, provided by a syndicate of banks. As at December 31, 2016, there was cash of $32,383 and bank indebtedness of $70,750 outstanding under this facility. During the year, the net amount of cash and bank indebtedness was settled.

Operating line of credit

Two of the Corporation's subsidiaries, Canadian North Inc. and Weldco-Beales Manufacturing Inc., have separate asset backed lines of credit available to a maximum of $20,000 each. The lines of credit are based on eligible accounts receivable and inventory and 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%. Separate general security agreements and demand debentures against all assets of Canadian North Inc. and Weldco-Beales Manufacturing Inc. have been pledged as collateral. The lines of credit expire in March 2020. As at December 31, 2017, there was $19,878 (2016 – $nil) outstanding under these facilities.

Long-term debt

	2017 **$**	**2016** **$**
Non-revolving term loan – settled during the year	-	75,921
Less: Current portion	-	75,921
	-	-

Finance lease obligations

	2017 **$**	**2016** **$**
Minimum lease payments		
No later than 1 year	1,110	1,161
Later than 1 year and no later than 5 years	5,373	5,284
Later than 5 years	14,718	16,129
	21,201	22,574
Future finance charges on finance lease obligations	7,394	8,248
Present value of finance lease obligations	13,807	14,326
Less: Current portion	533	319
	13,274	14,007

(in thousands of Canadian dollars)

The present value of finance lease liabilities is as follows:

	2017 $	2016 $
No later than 1 year	533	319
Later than 1 year and no later than 5 years	2,136	2,151
Later than 5 years	11,138	11,856
	13,807	14,326

The Corporation leases various buildings under non-cancellable finance lease agreements. The lease terms are 15 years at an interest rate of 6.00%. The finance lease obligations are secured by assets with a net book value of $13,504 (note 10).

Note payable

	2017 $	2016 $
Note payable	4,000	6,000
Less: Discount	173	173
	3,827	5,827
Less: Current portion	2,000	2,000
	1,827	3,827

The note payable is secured by 50% of the Corporation’s shares in 4339274 Canada Inc. and bears no interest. The note payable is due in annual instalments of $2,000 on February 1, 2018 and February 1, 2019.

16 Pension obligations

Other employee future benefits consist of supplemental pension obligations provided to certain former employees. This plan is unfunded and is closed to new members.

The following table summarizes the information related to the other employee future benefits.

	2017 $	2016 $
Balance – Beginning of year	2,661	4,337
Current service cost	-	26
Discontinued operations	-	(1,504)
Benefits paid	(366)	(198)
Balance – End of year	2,295	2,661

(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 expense (recovery) are as follows:

	2017 $	2016 $
Income tax expense at statutory rate	21,940	1,485
Adjusted for the tax effect of the following items		
Dividend income not subject to Part I tax	(841)	(904)
(Non-taxable) non-deductible portion of capital (gains) losses	(1,855)	12,712
Recognition of deferred tax asset on net capital losses	-	(27,866)
Non-taxable portion of change in fair value of financial assets	(2,480)	(1,672)
Foreign tax credits	(236)	(208)
Refundable Part I and Part IV taxes	540	931
(Income) loss from a tax-exempt entity	(226)	166
Non-deductible items and other	(3,773)	(86)
Adjustment in respect of prior years	(2,101)	(1,838)
Remeasurement of deferred tax – impact of substantively enacted rates	2,457	2,662
	13,425	(14,618)

The applicable statutory rate was 26.5% (2016 – 26.5%).

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

	2017 $	2016 $
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	(22,265)	(27,615)
Deferred tax assets to be recovered within 12 months	(953)	(894)
	(23,218)	(28,509)
Deferred tax liabilities		
Deferred tax liabilities to be realized after more than 12 months	39,168	33,145
Deferred tax liabilities – net	15,950	4,636

(in thousands of Canadian dollars)

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, 2016	(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)
Charged (credited) to the income statement	(18)	5,183	135	50	(59)	5,291
As at December 31, 2017	(1,410)	(16,247)	(3,735)	(434)	(1,392)	(23,218)

Deferred tax liabilities	**Property, plant and equipment and income-producing real estate** $	**Marketable securities** $	**Goodwill and intangible assets** $	**Other** $	**Total** $
As at January 1, 2016	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
Charged to the income statement	731	4,236	1,056	-	6,023
As at December 31, 2017	7,754	28,312	3,102	-	39,168

As at December 31, 2017, the Corporation has approximately $39,979 of non-capital losses and approximately $29,437 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	5
2026	325
2027	-
2028	294
2029	339
2030	69
2031	1,791
2032	2,427
2033	2,594
2034	6,823
2035	2,384
2036	17,959
2037	4,969

(in thousands of Canadian dollars)

The potential benefit relating to $9,753 (2016 - $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 $619 (2016 – $717), 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.

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.

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 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, 2017, letters of credit outstanding under these two facilities were $7,880 (2016 – $11,435).

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.

(in thousands of Canadian dollars)

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

	$
No later than 1 year	16,153
Later than 1 year and no later than 5 years	39,108
Later than 5 years	14,248
	69,509

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 2017, the Corporation distributed $1,824 (2016 – $2,423) to the Inuvialuit Trust. 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:

	2017 $	2016 $
Air transportation	204,020	207,960
Manufacturing	86,772	64,259
Groceries	18,963	19,223
Real estate	6,265	3,750
Non-recurring finance income, management fees and other	32,064	1,260
	348,084	296,452

(in thousands of Canadian dollars)

21 Expenses by nature

Development expenses

Included in development expense are the following amounts:

	2017 $	2016 $
Air transportation	181,699	184,360
Manufacturing	66,813	50,448
Groceries	13,160	13,598
Real estate	6,386	4,320
Other	1,169	461
	269,227	253,187

Expenses by nature

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

	2017 $	2016 $
Operating expenses – income-producing real estate	4,446	2,451
Operating lease payments	28,380	27,618
Pension expense – defined benefit	-	26
Pension expense – defined contribution	1,801	2,021
Salaries and wages	99,502	93,694
Foreign exchange loss	21	474

22 Finance expense

Included in finance expense are the following:

	2017 $	2016 $
Interest on bank indebtedness	1,048	2,554
Interest on operating line of credit	619	-
Interest on long-term debt	437	4,537
Interest on finance lease obligations	772	747
Financing fees	947	482
Other	-	178
	3,823	8,498

(in thousands of Canadian dollars)

23 Related party balances and transactions

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

	Relationship	2017 $	2016 $
Nappaq Construction Ltd.	joint venture	1,223	696
Pan Arctic Inuit Logistics Corporation	associate	53	437
Arctic Oil & Gas Services Ltd.	joint venture	358	285
Aklak Inc.	joint venture	28	267
Northern Aboriginal Services Corporation	associate	42	150
Other affiliates	joint venture	18	74
		1,722	1,909

Loans and advances to associates and joint ventures are included in note 7.

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

	Relationship	Transaction	Recorded as	2017 $	2016 $
Northern Aboriginal Services Corporation	associate	management services	operating revenue	160	155
Inukshuk Geomatics Inc.	joint venture	management services	operating revenue	83	36
IEG Consultants Ltd.	joint venture	management services	operating revenue	10	17
Pan Arctic Inuit Logistics Corporation	associate	management services	operating revenue	20	-
Aklak Inc.	joint venture	management services	operating revenue	-	188
Aklak Inc.	joint venture	royalty fees	operating revenue	167	179
Nappaq Construction Ltd.	joint venture	commissions	operating revenue	534	675

The amounts recognized in equity are as follows:

	Relationship	Transaction	Recorded as	2017 $	2016 $
Inuvialuit Trust	shareholder in subsidiaries	capital distribution	capital transfer	(1,824)	(2,423)

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

(in thousands of Canadian dollars)

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

	2017 $	2016 $
Salaries and short-term employee benefits	2,172	2,240

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, 2017 and 2016.

	2017		2016	
	Fair value $	Carrying amount $	Fair value $	Carrying amount $
Assets				
Loans and receivables				
Cash and cash equivalents	105,625	105,625	100,214	100,214
Accounts receivable	47,612	47,612	51,033	51,033
Due from related parties	1,722	1,722	1,909	1,909
Loans and advances included in investments, loans and advances	703	703	713	713
Financial assets at fair value through profit or loss				
Marketable securities	481,566	481,566	426,950	426,950
Liabilities				
Amortized cost				
Bank indebtedness	141,259	141,259	121,938	121,938
Operating line of credit	19,878	19,878	-	-
Accounts payable and accrued liabilities	41,872	41,872	37,423	37,423
Long-term debt	-	-	75,921	75,921
Finance lease obligations	16,366	13,807	16,506	14,326
Note payable	3,984	3,827	5,973	5,827
Financial liabilities to Fixed Income Fund participants	36,831	36,831	32,027	32,027
Financial liabilities at fair value through profit or loss				
Financial liabilities to Balanced Fund participants	-	-	583	583

The fair values of cash and cash equivalents, accounts receivable, due from related parties, loans and advances, bank indebtedness, operating line of credit and accounts payable and accrued liabilities approximate carrying value due to their short-term nature. The fair value of financial liabilities to Fixed Income Fund participants approximates carrying value as market rates of interest do not differ significantly for instruments

(in thousands of Canadian dollars)

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 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.

(in thousands of Canadian dollars)

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

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:

				2017
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Equity securities	242,406	44,597	-	287,003
Debt securities	3,157	107,409	602	111,168
Alternative investments	-	20,477	62,918	83,395
	245,563	172,483	63,520	481,566
Financial liabilities to Balanced Fund participants	-	-	-	-

				2016
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Equity securities	216,787	39,142	-	255,929
Debt securities	1,952	104,173	-	106,125
Alternative investments	-	19,611	45,285	64,896
	218,739	162,926	45,285	426,950
Financial liabilities to Balanced Fund participants	310	231	42	583

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 classes, and outlines appropriate portfolio weightings for each class. Management reports to the board monthly on compliance with the approved asset mix, and if any classes are not within the pre-approved weightings, it will take corrective action.

(in thousands of Canadian dollars)

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:

	2017		2016	
	Unlisted equity investments $	**Financial liabilities to Balanced Fund participants $**	**Unlisted equity investments $**	**Financial liabilities to Balanced Fund participants $**
Balance – Beginning of year	45,285	42	54,326	141
Additions (disposals)	15,256	(42)	(7,467)	(98)
Unrealized gains (losses)	2,979	-	(1,574)	(1)
Balance – End of year	63,520	-	45,285	42

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 cash and cash equivalents, 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 risks).

- Management of credit risk

  The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held primarily with Canadian chartered banks.

  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

(in thousands of Canadian dollars)

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	**2017** **$**	**2016** **$**
AAA	42,264	37,006
AA	40,259	40,645
A	16,800	17,645
BBB	5,602	4,532
Other	6,243	6,297
	111,168	106,125

- Balances due from brokers

Balances due from brokers result from margin accounts, cash collateral for borrowed securities and sales 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.

(in thousands of Canadian dollars)

- Concentration of credit risk

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

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

	2017 **%**	**2016** **%**
Governments	65	61
Finance	8	10
Mortgage-backed securities	2	3
Other	25	26

There were no significant concentrations in this portfolio of credit risk to any individual issuer or group of issuers as at December 31, 2017.

- 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:

	2017 **$**	**2016** **$**
0 to 30 days	34,074	17,490
31 to 60 days	4,723	11,710
61 to 90 days	1,495	1,801
Over 90 days	1,088	2,283
	41,380	33,284
Provision for impairment	(454)	(440)
Accounts receivable	40,926	32,844
Other receivables	6,686	18,189
Accounts and other receivables	47,612	51,033

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 $454 (2016 – $440) are sufficient to cover credit risk.

(in thousands of Canadian dollars)

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

	2017 $	2016 $
Provision for impairment – Beginning of year	440	1,797
Amounts written off	(327)	(964)
Amounts allowed for	349	44
Amounts received	(8)	(437)
Provision for impairment – End of year	454	440

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.

- Management of liquidity risk

The Corporation's policy and the investment managers' approach in 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 holds investments in unlisted investment funds in the alternative investments, which are generally illiquid and are exposed to the risk of side pockets or redemption restrictions being imposed. As a result, the Corporation may not be able to liquidate some of its investments in these instruments without delay 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.

(in thousands of Canadian dollars)

				2017
	Carrying amount $	**Less than one year $**	**One to three years $**	**Over three years $**
Bank indebtedness	141,259	141,259	-	-
Operating line of credit	19,878	19,878	-	-
Accounts payable and accrued liabilities	41,872	41,872	-	-
Finance lease obligations	13,807	1,110	5,373	14,718
Note payable	3,827	2,000	2,000	-
Financial liabilities to Fixed Income Fund participants	36,831	36,831	-	-
Guarantees	350	350	-	-
Letters of credit	7,880	7,880	-	-

				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	11,435	11,435	-	-

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.

(in thousands of Canadian dollars)

- 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, operating line of credit and financial liabilities to Fixed Income Fund participants, 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, 2017 would have increased or decreased net income, net of tax, for the year ended December 31, 2017 by $1,445 (2016 – $1,678).

- 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:

	2017 **%**	**2016** **%**
US dollar	17.94	18.45

  The Corporation estimates that a one cent change in the value of the US dollar would have increased or decreased net income, net of tax, for the year ended December 31, 2017 by $655 (2016 – $582).

- Exposure to other price risk

  Other price risk is the risk the fair value of a 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.

(in thousands of Canadian dollars)

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 $3,515 (2016 – $3,117).