

THUNDER BAY INTERNATIONAL AIRPORTS AUTHORITY

2019 ANNUAL REPORT



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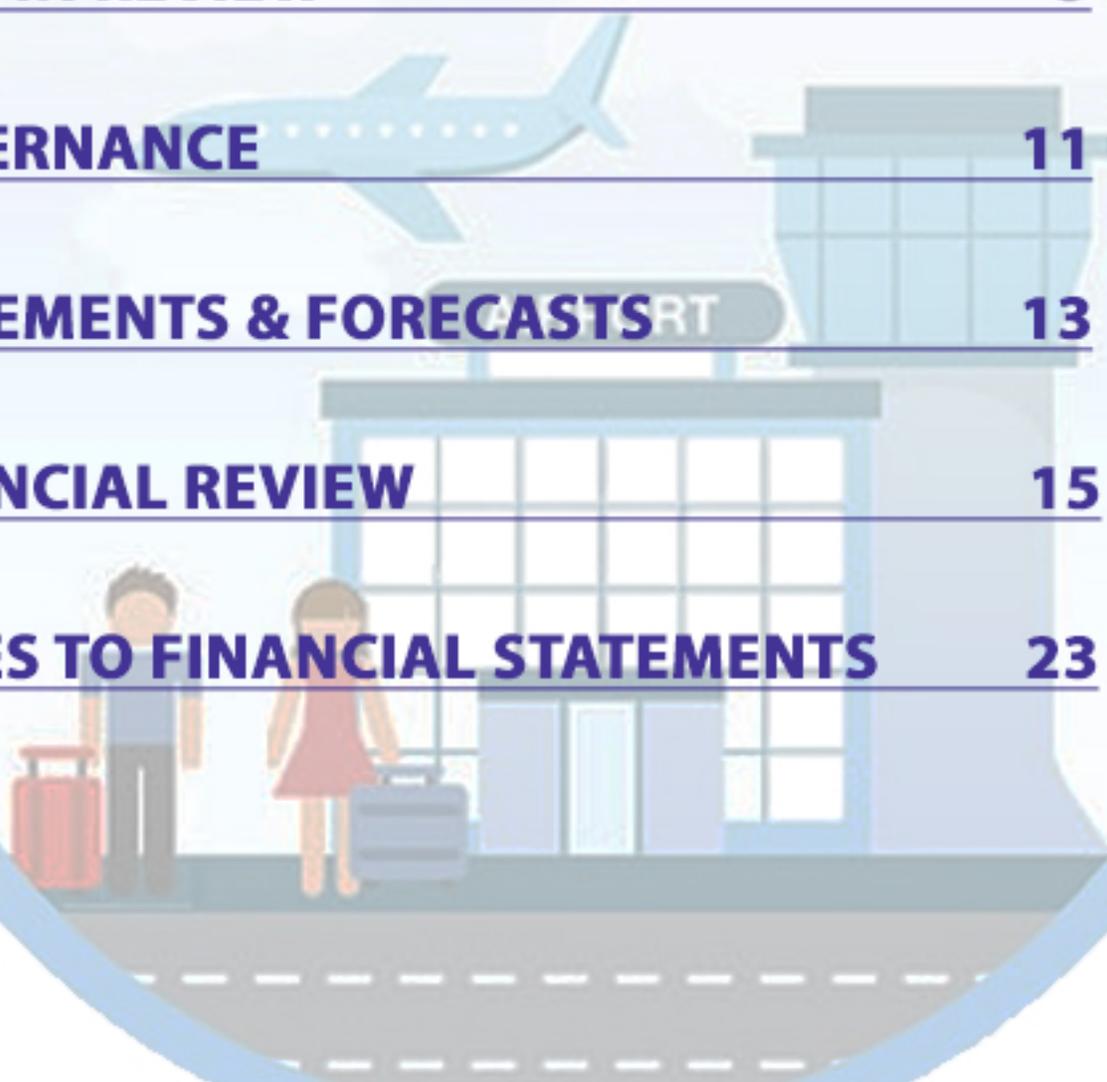
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ORGANIZATION'S STRATEGIC OBJECTIVES

Thunder Bay International Airports Authority Inc. exists so there will be air related transportation for Thunder Bay and the surrounding region. Secondary to this, the Airport also exists as a major contributor to regional economic growth.

This strategic vision is further expanded to focus on the following objectives:

1 HIGH LEVEL ENDS POLICY 1:

Air services for Thunder Bay are sustained, developed and expanded where possible to ensure essential transportation needs are met.

2 HIGH LEVEL ENDS POLICY 2:

Superior safety, customer service excellence and extraordinary customer experience exists at the airports operated by the Authority.

3 HIGH LEVEL ENDS POLICY 3:

Regional economic development is stimulate and expanded for our local and regional businesses using TBIAA assets where appropriate.

As the governing body, the Board recognizes that through this Ends Policy it is committing the use of the resources to achieve the desired Ends (outcomes).

In support of achieving the desired Ends in a cost effective manner, the Board will identify the relative priorities within the Ends Policies. These priorities become assumptions in building the annual budget for the next year.

All Ends should be achieved at a reasonable fee for customers. The Board will review on an annual basis the overall envelope of resources to ensure sufficient resources exist to reasonably achieve the desired prioritized Ends.

Fees to customers should, in a defined and reasonable time frame, be set to:

- Provide a sustainable balanced budget which meets net profit goals.
- Provide financial stability and growth.
- Not cause undue hardship to customers resulting from sudden or major fee increases



In 2019 we welcomed Air Canada Rouge, a changeover from Air Canada Express. The first arrival was welcomed by a water cannon salute



YEAR IN REVIEW



As we look back amid the impacts of the Covid19 pandemic on the air transportation sector, 2019 seems like it was years ago. What was largely a “normal” year without milestone construction or any other major changes at Thunder Bay Airport, 2019 is now the benchmark against which future years’ recoveries will be measured.

Air Service

Air Canada’s return to jet service was the defining change in air service during the year. Turbo-prop Q400 aircraft were replaced with Airbus jets. The change sacrificed frequency for faster service. Although travelers welcomed jet service, as the lengthy connections at Pearson Airport (YYZ) became apparent, the cost in total travel time became clear.

Air Canada also terminated its daily service to Winnipeg.

Softening demand saw all carriers report reduced passenger volumes compared to 2018. By the end of the year, traffic had dropped by 4.2% to 833,105 passengers.

Emergency Preparedness

TBIAA continued its ongoing emergency preparedness efforts by hosting two exercises to test and refine response procedures. On December 18, a live security exercise was held in the Air Terminal Building to test responses on possible security breaches. On October 22, a table top exercise simulating an incident on the airfield was conducted. Over twenty agencies participated across these two learning opportunities. TBIAA expresses our appreciation to all who participated.

Financial Performance

TBIAA reported another strong year of consolidated earnings. The year finished with an operating surplus in excess of operations of \$1.8million. This marked the fifth consecutive year of operating surpluses in excess of \$1.5million. TBIAA also made great strides in reducing long term debt by approximately \$3.0million dollars.

Recovery of the investment portfolio early in 2019 followed by steady gains through the year, propelled surpluses from all sources to an all-time high of \$5.475million.



Alvin Fiddler ✓

@gcfiddler



The #tbay airport just keeps getting better. This beautiful image of a Thunder Bird (Binehsii) etched on glass is the latest part of its ongoing upgrades.

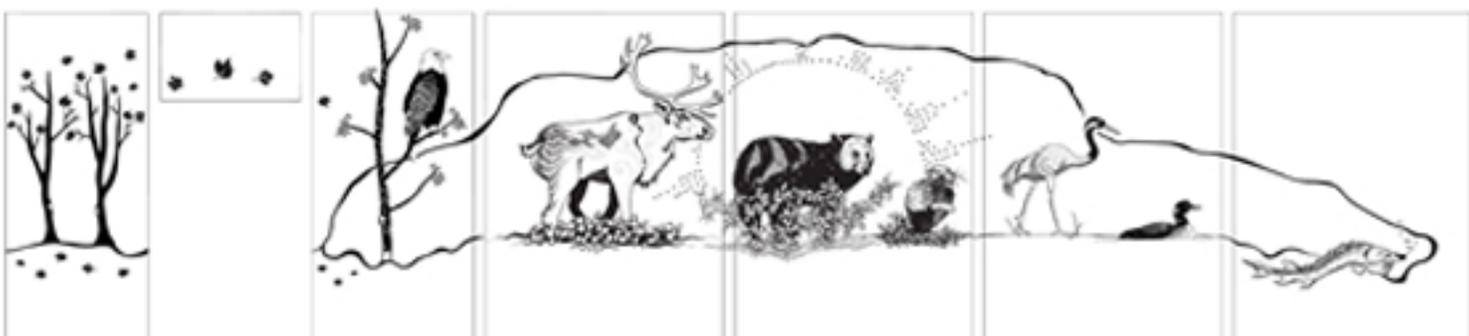
1:56 PM · May 12, 2019 · [Twitter for iPhone](#)

20 Retweets and comments 129 Likes



ANEMKI-WAJIW

This year saw the installation of beautiful artwork done on etched glass in collaboration with Neechee Studio



YEAR IN REVIEW



Pursuant to the public accountability principles for Canadian Airport Authorities, general by-laws, and TBIAA's procurement policy for goods and services, all contracts value at more than \$75,000 (1994 dollars subject to annual adjustment for inflation) shall be awarded following a competitive public tendering process unless the Board of Directors, for reason of efficiency and practicality decides otherwise. There were no exceptions to the policy in 2019.

Environmental Stewardship

In accordance with requirements of Section 67 of the Canadian Environmental Assessment Act, TBIAA evaluates all construction projects to determine their potential effect on the environment, including both Socio-economic factors and bio-physical effects. The evaluation includes a checklist to help safeguard air, water and soil quality. In 2019, no projects were determined to cause significant adverse environmental effects.

Anemki-Wajiw

The year saw the installation of beautiful artwork in the Terminal Building. Presented as etched glass, three glass walls are adorned with art reflecting the unique history.

The largest piece displayed at the Pre-Board Screening (PBS) depicts the Anemki Wiikwedong: Sacred Territory of the Thunderbirds.

The pieces were completed by the Neechee Studio Artists, namely: Lucille Atlookan, Laura Calmwind, Cynthia Edwards, Shayne Ehman, Blake Evans, Mary McPherson, Phyllis Shaugabay, Matilda Suganaqueb.

We are very grateful to this group of talented people for sharing their talents and interpretations of local history and teachings.

Buying Local

With major capital projects substantially completed, our total spending on goods and services dropped in 2019.

However, our commitment to buying local held steadfast. Over 72% or \$7.4million of all spending was destined for local businesses.



SOUNDS OF THE SEASON

FOR THE THIRD CONSECUTIVE YEAR, TBIAA HOSTED CBC'S SOUNDS OF THE SEASON EVENT IN SUPPORT OF THE REGIONAL FOOD DISTRIBUTION ASSOCIATION



YEAR IN REVIEW



Sounds of the Season

For the third consecutive year, CBC broadcast their “Sounds of the Season” event from our Air Terminal Building in support of the Regional Food Distribution Association’s (RFDA) annual fundraiser in support of delivering food to remote communities.

Air cargo capacity was again donated by Bearskin/Perimeter Aviation, KBM Aviation, Northstar Air and Wasaya Airways. Over 30,000 kilograms of food was delivered to nineteen remote communities. With the help of many generous friends, TBIAA raised over \$33,000 to support cash expenses. We thank everyone who made this event a success.

Employee Commitment during the CoVid 19 Pandemic

At the time of writing this 2019 summary, the Airport Authority is responding to the many aspects of the CoVid19 pandemic on operations. It is important to acknowledge the efforts of our employees in working with public health officials, adhering to internal health related policies and working to find cost savings during these difficult times. The details will form the bulk of the 2020 narrative, but their efforts warrant acknowledgement now.

Thank You

The Board and staff would like to acknowledge and thank the effort and commitment offered by Craig Urquhart for service on the Board of Directors.



Dave Siciliano
Chair of the Board



Ed Schmidtke
President & Chief
Executive Officer

TBIAA BOARD OF DIRECTORS, 2019



MANAGEMENT TEAM



Top row: Rick Trochimchuk, Ken Boshcoff, Paul Inksetter

Middle row: Gary Woodbeck, Craig Urquhart, Dave Siciliano

Bottom row: Lynn Peterson, Mary Long-Irwin

Top row: Ed Schmidtke, Sharon Kelly, Ryan Brading

Middle row: Sarah Parkes, Darren Watts, TJ Ahvenniemi

Bottom row: Duane Riddell

GOVERNANCE

The Thunder Bay International Airports Authority Inc. (TBIAA) is a non-share capital corporation incorporated under the Canada Corporation Act. Members of the Board of Directors are community leaders nominated by government and non-government organizations who meet monthly to fulfil their strategic and fiduciary responsibilities.

The Board has overall responsibility for the management of the affairs of the Corporation and is fortunate to have attracted Board members who offer a wealth of knowledge and experience. The Board has established an administrative procedure outlined in the TBIAA General Operating By-Law and Letters Patent.

Compliance with Code of Conduct

TBIAA has adopted conflict of interest guidelines to govern the conduct of, and the disclosure and avoidance of conflicts of interest for, all officers and directors. These disclosures are updated as required.

Nominator's Representatives:

as of December 31, 2019

Government of Canada (2)

Mary Long-Irwin
Lynn Peterson

Government of Ontario (1)

Rick Trochimchuk*

City of Thunder Bay (2)

Ken Boshcoff
Dave Siciliano

Thunder Bay Chamber of Commerce (2)

Gary Woodbeck
Craig Urquhart

Thunder Bay and District Labour Council / Labour Affiliated Organizations (1)

Paul Inksetter

Thunder Bay International Airports Authority Inc. (1)

Rick Trochimchuk **

Board Compensation for 2019

Ken Boshcoff	\$18,617
Paul Inksetter	\$15,017
Mary Long-Irwin	\$15,117
Lynn Peterson	\$13,717
Dave Siciliano (<i>Chair</i>)	\$22,967
Rick Trochimchuk	\$16,967
Gary Woodbeck	\$16,017
Craig Urquhart	\$14,834

* *appointment expired on October 2, 2019. Vacant at December 31, 2019*

***appointed October 2, 2019*

Management Team:

President & Chief Executive Officer-Ed Schmidtke

Controller-Sharon Kelly

Manager, Airport Services-Ryan Brading

Manager, Facilities – T.J. Ahvenniemi

Manager, Safety Management System - Sarah Parkes

Manager, Security – Darren Watts

TBAS, Inc.-Red Lake Airport-Duane Riddell

The annual compensation for the senior management team for the year ending December 31, 2019 was: \$687,328.

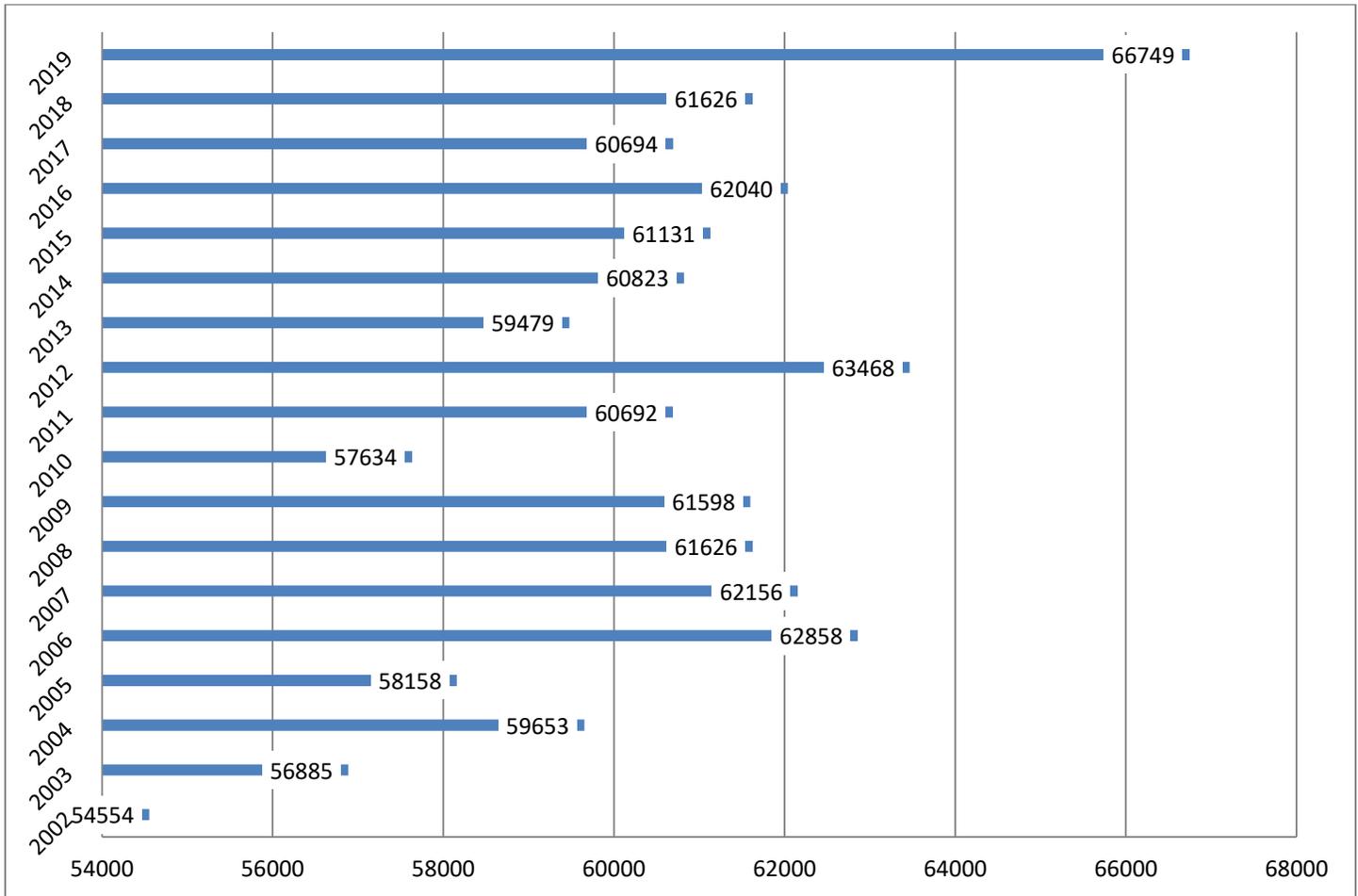


**MOVEMENTS
&
FORECASTS**

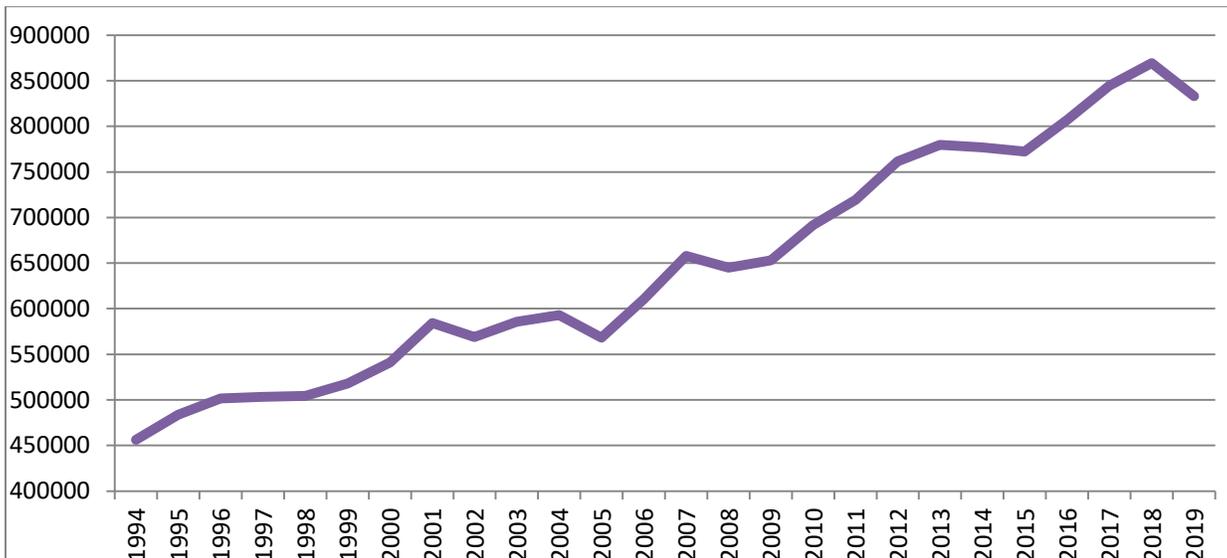
MOVEMENTS & FORECASTS

**Due to the uncertainty caused by COVID-19, all forecasted numbers have been removed.*

Itinerant Aircraft Movements



Passenger Volume



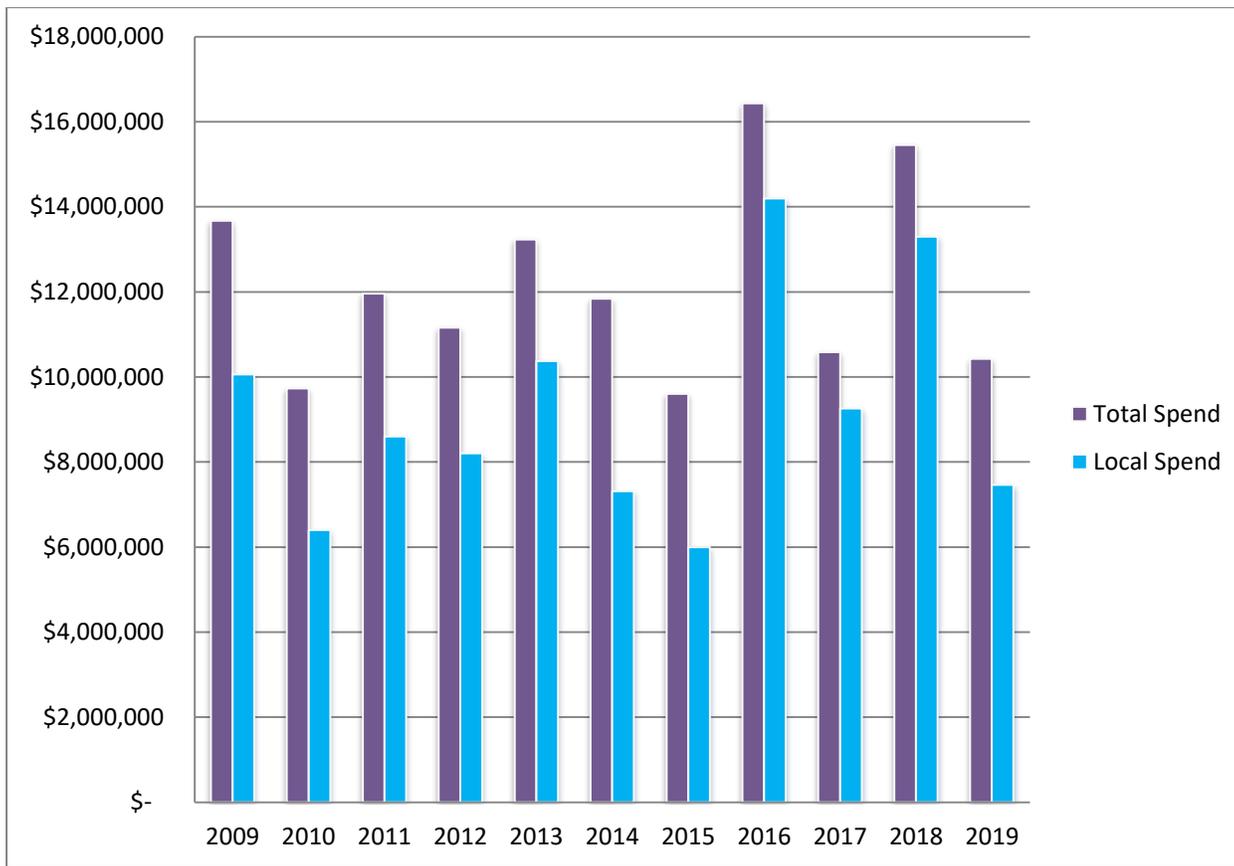


FINANCIAL REVIEW

FINANCIAL REVIEW

**Due to the uncertainty caused by COVID-19, all forecasted numbers have been removed.*

Total Expenditures to Local Suppliers (\$000)

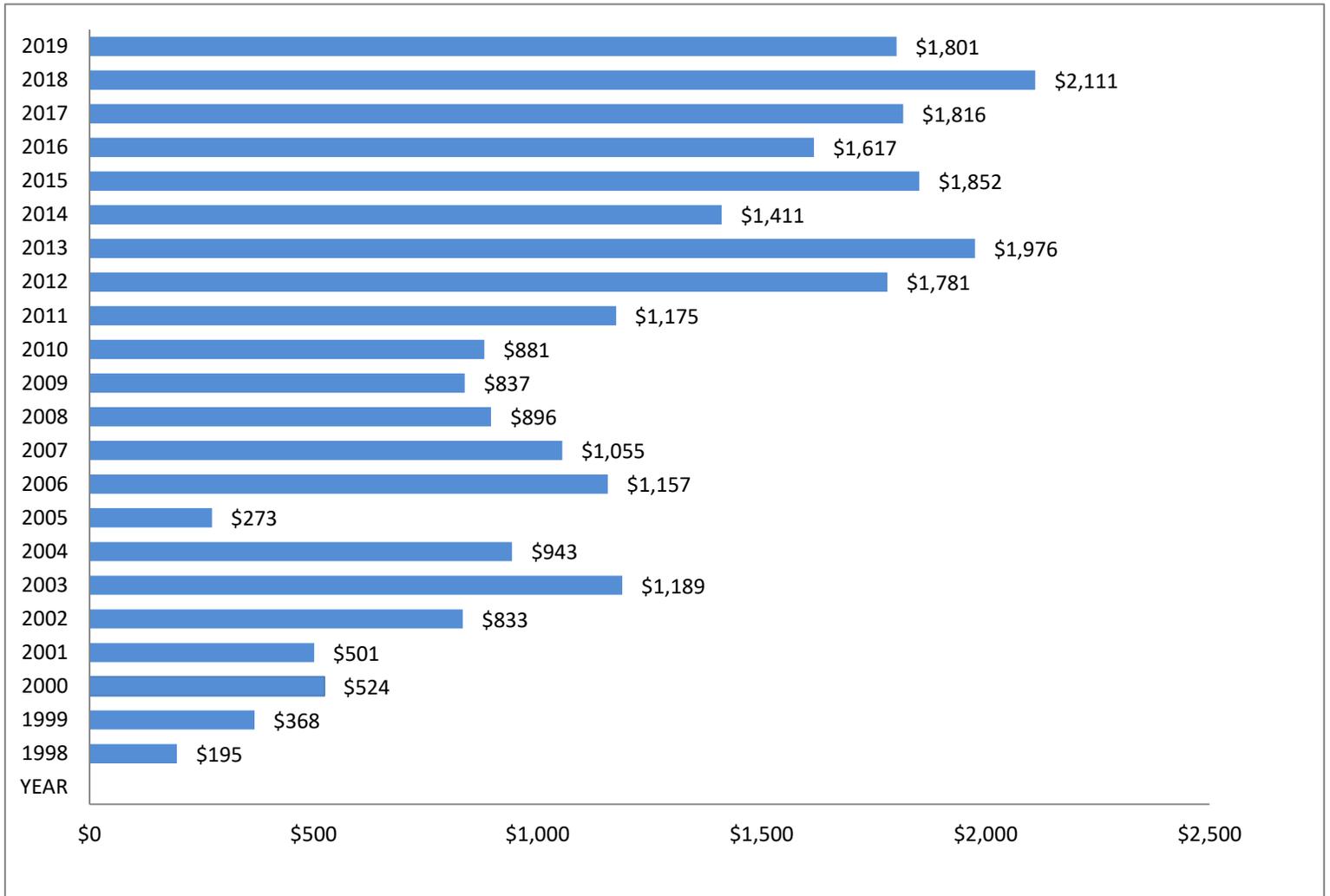


YEAR	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL SPEND	\$13,670	\$9,733	\$11,960	\$11,162	\$13,233	\$11,836	\$9,602	\$16,432	\$10,583	\$15,451	\$10,429
LOCAL SPEND	\$10,063	\$6,397	\$8,601	\$8,203	\$10,372	\$7,317	\$5,995	\$14,194	\$9,259	\$13,302	\$7,460
% LOCAL	74%	66%	72%	73%	78%	62%	62%	86%	87%	86%	72%

FINANCIAL REVIEW

**Due to the uncertainty caused by COVID-19, all forecasted numbers have been removed.*

Operating Earnings **(\$000)**



Independent Auditor's Report

Grant Thornton LLP

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To the Directors of
Thunder Bay International Airports Authority Inc.

Opinion

We have audited the consolidated financial statements of Thunder Bay International Airports Authority Inc. ("the Authority"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Thunder Bay International Airports Authority Inc. as at December 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Thunder Bay, Canada
April 28, 2020

Chartered Professional Accountants
Licensed Public Accountants

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Operations

Year ended December 31	2019	2018
	\$	\$
REVENUE [schedule]	12,888,169	12,420,232
EXPENSES		
Direct		
Advertising and promotion	143,081	105,250
Benefits	458,316	395,847
Contracted maintenance	700,081	542,891
Contracted services	679,615	628,889
Equipment rentals	3,332	1,076
Federal rent	207,542	185,685
Materials and supplies	538,720	528,242
Office and administration	59,861	100,314
Professional and consulting fees	287,782	339,878
Purchased repairs	131,803	142,697
Salaries	2,862,099	2,920,179
Telephone	41,723	30,998
Training and meetings	62,588	63,497
Travel	66,511	48,659
Utilities	549,083	535,169
	6,792,137	6,569,271
Indirect		
Amortization	3,031,773	2,586,575
Bad debts	2,388	1,083
Directors' fees	127,933	96,884
Payment in lieu of property taxes	422,880	417,528
Insurance	118,449	120,007
Interest and bank charges	58,184	49,278
Interest on long-term debt	532,621	468,023
	4,294,228	3,739,378
Total expenses	11,086,365	10,308,649
Earnings before the following	1,801,804	2,111,583
Realized earnings on investments	1,402,278	1,073,052
Fair market value adjustment	2,332,392	(1,736,190)
Foreign exchange loss	(61,373)	-
Excess of revenue over expenses	5,475,101	1,448,445

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Financial Position

As at December 31 2019 2018

	2019	2018
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,101,728	1,791,704
Accounts receivable [note 3]	12,741,192	2,486,327
Inventory, at cost	47,512	49,520
Prepaid expenses and deposits	595,804	470,249
Due from the Red Lake Airport	90,436	305,378
Total current assets	15,576,672	5,103,178
Property and equipment, net [note 4]	36,839,467	36,928,360
Other		
Investments [note 5]	28,124,108	33,640,895
Defined benefit asset [note 6]	2,430,000	1,811,000
Total other assets	30,554,108	35,451,895
	82,970,247	77,483,433
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 7]	3,889,716	3,105,343
Current portion of long-term debt [note 8[a]]	2,230,836	1,658,132
Deferred revenue	523,292	538,689
Total current liabilities	6,643,844	5,302,164
Non-current		
Security deposits	40,530	40,530
Long-term debt [note 8[a]]	14,050,739	17,606,681
Retirement allowance liability [note 9]	305,903	338,566
Deferred capital contributions [note 10]	8,699,669	6,848,031
Total non-current liabilities	23,096,841	24,833,808
Net assets		
Investment in property and equipment [note 11[a]]	11,858,223	10,815,516
Unrestricted	41,371,339	36,531,945
Net assets	53,229,562	47,347,461
	82,970,247	77,483,433

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director & Chair



D. Siciliano

Director & Chair of Finance and
Audit Committee



R. Trochimchuk

Thunder Bay International Airports Authority Inc. Consolidated Statement of Changes in Net Assets

Year ended December 31

2019

2018

	Investment in property and equipment \$ <i>[note 11]</i>	Unrestricted \$	Total \$	Total \$
Net assets, beginning of year	10,815,516	36,531,945	47,347,461	46,183,016
Excess (shortfall) of revenue over expenses	(2,708,842)	8,183,943	5,475,101	1,448,445
Net change in investment in property and equipment	3,751,549	(3,751,549)	-	-
Pension remeasurement and other items <i>[note 6]</i>	-	407,000	407,000	(284,000)
Net assets, end of year	11,858,223	41,371,339	53,229,562	47,347,461

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Cash Flows

Year ended December 31	2019	2018
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses	5,475,101	1,448,445
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization	3,031,773	2,586,575
Amortization of deferred capital contributions	(322,931)	(156,315)
Increase (decrease) in accrued benefit asset	(212,000)	(300,000)
Increase (decrease) in retirement allowance liability	(32,663)	(104,204)
Fair market value adjustment	(2,332,392)	1,736,190
	5,606,888	5,210,691
Net change in non-cash working capital balances related to operations <i>[note 12[a]]</i>	(9,394,494)	958,392
Cash provided by (used in) operating activities	(3,787,606)	6,169,083
INVESTMENT ACTIVITIES		
Purchase of property and equipment <i>[note 12[b]]</i>	(2,942,880)	(8,366,741)
Increase in investments, net	7,849,179	(4,343,185)
Cash provided by (used in) investment activities	4,906,299	(12,709,926)
FINANCING ACTIVITIES		
Loan proceeds	2,942,473	6,661,823
Repayment of long-term debt	(5,925,711)	(1,839,700)
Deferred capital contributions	2,174,569	3,204,947
Cash provided by (used in) financing activities	(808,669)	8,027,070
Increase in cash and cash equivalents during year	310,024	1,486,227
Cash and cash equivalents, beginning of year	1,791,704	305,477
Cash and cash equivalents, end of year	2,101,728	1,791,704

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

December 31, 2019

GENERAL

The Thunder Bay International Airports Authority Inc. (the "Authority") was incorporated without share capital on August 3, 1995 under the laws of Canada.

On September 1, 1997, the Authority signed a sixty year ground lease, with a renewal term of twenty years with Transport Canada and assumed the responsibility for the management, operation and development of the Thunder Bay International Airport.

The Authority is exempt from income tax in accordance with the Airport Transfer (Miscellaneous Matters) Act.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of the Authority have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The more significant of these accounting policies are summarized below.

Basis of consolidation

The accompanying financial statements are prepared on a consolidated basis to include the accounts of the Authority and its subsidiaries, Thunder Bay Airport Services Inc. and Superior Aerospace Services Ltd. which are wholly-owned.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

Inventory

Inventory consists of fuel products, foam agents and parts. Inventory is measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less selling costs.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

December 31, 2019

Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated amortization.

Amortization is provided on the basis and at the rates below. It is expected these procedures will charge earnings with the cost of the property and equipment over their estimated useful lives. Gain or loss on disposal of individual assets is recognized in earnings in the year of disposal.

Airside equipment	1/15 straight-line - salvage value 10%
Computer hardware	1/3 straight-line
Computer software	1/3 straight-line
Land transfer costs	1/60 straight-line
Land development costs	1/30 straight-line
Leasehold improvements	1/5 to 1/20 straight-line
Office furniture and equipment	1/5 straight-line
Runway upgrades	1/15 to 1/40 straight-line
Security upgrades	1/5 straight-line
Vehicles and equipment	1/5 straight-line - salvage value 10%

Property and equipment acquired during the year and not ready for productive use are not amortized.

Normal maintenance and repairs are expensed as incurred.

Revenue recognition

Landing fees, terminal fees and parking fees revenue are recognized as airport facilities are used.

Lease revenue is recognized in the period in which it was earned.

The Authority follows the deferral method of accounting for contributions, which include government grants. Restricted contributions are reflected as deferred contributions and are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of property and equipment that will be amortized are deferred and recognized as revenue at the same rate of amortization as the related property and equipment. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

All other revenue is recognized at point of sale or when the good or service has been provided and collectability is reasonably assured.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

December 31, 2019

Financial instruments

The Authority considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Authority accounts for the following as financial instruments:

- cash and cash equivalents
- accounts receivables
- investments
- due to/from the Red Lake Airport
- accounts payable and accrued liabilities
- security deposits
- long-term debt

A financial asset or liability is recognized when the Authority becomes party to contractual provisions of the instrument.

Measurement

Financial assets or liabilities obtained in arm's-length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption.

Financial assets or liabilities obtained in related party transactions are measured in accordance with the accounting policy for related party transactions except for those transactions that are with a person or entity whose sole relationship with the Authority is in the capacity of management in which case they are accounted for in accordance with financial instruments.

Financial assets and financial liabilities are subsequently measured according to the following methods:

<u>Financial instrument</u>	<u>Subsequent measurement</u>
Cash and cash equivalents	Amortized cost (which approximates fair value)
Accounts receivable	Amortized cost
Investments	Fair value
Due to/from the Municipality of Red Lake	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Security deposits	Amortized cost
Long-term debt	Amortized cost

Derecognition

The Authority removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

December 31, 2019

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the consolidated statement of operations.

Employee future benefits

The Authority sponsors two pension plans for its employees: a defined benefit plan and a defined contribution plan.

Defined benefit pension plan

For the Authority's defined benefit pension plan, the defined benefit obligations are determined using the most recent actuarial valuation report prepared for funding purposes.

Plan assets are measured at fair value.

The Authority recognizes the plan's funded surplus, which is the net amount of the defined benefit obligations and the fair value of plan assets, on the consolidated statement of financial position.

Actuarial gains and losses and past service costs are included in the cost of the plan for the year in the consolidated statement of operations.

The Authority only recognizes a plan funded surplus on the consolidated statement of financial position to the extent it is expected to be realized. A valuation allowance is recognized for any excess of the plan surplus over the expected future benefit.

Defined contribution pension plan

Under the defined contribution pension plan, an expense is recorded in the period when the Authority is obligated to make contributions for services rendered by the employee. Any unpaid contributions are included on the consolidated statement of financial position as an accrued liability.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

December 31, 2019

Foreign currency translation

Foreign currency transactions entered into directly by the Authority are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the consolidated statement of financial position exchange rates. Other statement of financial position items are translated at historical exchange rates. Revenue and expense items are translated at average rates of exchange prevailing during the year. Any resulting exchange gains and losses are included in the consolidated statement of operations in the current year. At year-end, monetary assets and liabilities denominated in U.S. dollars and European euros are translated using the exchange rate of U.S. \$1 = Cdn \$1.2988 and EUR €1 = Cdn \$1.4583, respectively.

Management estimates

Management reviews the carrying amounts of items in the consolidated financial statements at each consolidated statement of financial position date to assess the need for revisions or any possibility of impairment. Many items in the preparation of these consolidated financial statements require management's best estimate based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to earnings as appropriate in the year they become known.

Significant items subject to management estimates include:

<u>Financial statement element</u>	<u>Management estimate</u>
Accounts receivable	Allowance for doubtful accounts
Inventory	Obsolete inventory provision
Property and equipment	Asset useful lives
Defined benefit asset	Actuarial assumptions [note 6]

2. BANK INDEBTEDNESS

Toronto-Dominion Bank

The Authority has available a demand operating loan of \$500,000 [2018 - \$500,000] bearing interest at the bank's prime lending rate per annum [3.95% at December 31, 2019]. \$nil [2018 - \$nil] was outstanding at year-end.

The security for all indebtedness with Toronto-Dominion Bank consists of the following:

- General security agreement representing a first charge on all of the Authority's present and after acquired property.
- Assignment of fire insurance;
- Security Postponement agreement between the Bank and Ministry of Transport and Thunder Bay International Airports Authority Inc., dated August 29, 1997 giving the Ministry of Transport first position on all assets except "account, chattel paper, document of title, instrument and money," and subsequently amended granting the Bank priority on various equipment.

Thunder Bay International Airports Authority Inc.

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The Authority has guaranteed bank advances of its subsidiary, Thunder Bay Airport Servicecs Inc. up to a limit of \$1,500,000. At December 31, 2019, advances of \$nil [2018 - \$nil] were outstanding.

3. ACCOUNTS RECEIVABLE

	2019	2018
	\$	\$
Trade accounts receivable	12,788,846	2,533,981
Allowance for doubtful accounts	(47,654)	(47,654)
	12,741,192	2,486,327

4. PROPERTY AND EQUIPMENT

Details of year-end property and equipment balances are as follows:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
	\$	\$	\$	\$
Airside equipment	3,968,423	2,529,007	1,439,416	1,676,276
Computer hardware	373,074	367,850	5,224	3,977
Computer software	661,416	629,131	32,285	57,951
Land and land transfer costs	1,158,108	67,368	1,090,740	1,093,802
Land development costs	7,340,464	2,434,882	4,905,582	4,709,658
Leasehold improvements	28,294,956	9,840,125	18,454,831	17,459,392
Office furniture and equipment	292,097	281,600	10,497	15,728
Runway upgrades	17,635,506	7,211,809	10,423,697	11,210,971
Security upgrades	3,183,786	3,183,786	-	-
Vehicles and equipment	2,972,753	2,495,558	477,195	700,605
	65,880,583	29,041,116	36,839,467	36,928,360

Amortization for the year is \$3,031,773 [2018 - \$2,586,575]. Included in property and equipment balances are \$2,122,889 [2018 - \$9,006,218] of assets not being amortized as they are not ready for productive use.

Thunder Bay International Airports Authority Inc.

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5. INVESTMENTS

	2019 Cost \$	2019 Market \$	2018 Cost \$	2018 Market \$
Cash and cash equivalents	1,430,746	1,431,123	1,280,257	1,280,737
Fixed income *	11,565,544	11,677,619	19,841,707	19,184,498
Equity *	11,444,085	15,015,366	11,167,589	13,175,660
Total	24,440,375	28,124,108	32,289,553	33,640,895

* quoted in an active market or derived from inputs other than quoted prices that are observable

6. EMPLOYEE FUTURE BENEFITS

The Authority is a participating employer in the Canadian Airport Authorities and Canadian Port Authorities Pension Plan, a multi-employer pension plan. The Plan provides pension benefits for those individuals who transferred employment from the federal public service at the time operation of the airport was transferred to the Authority in 1997. The federal government remains responsible for all pension benefits accrued in respect of those individuals up to that time.

The most recent actuarial valuation of the Plan is as at January 1, 2019. The following information concerning the Plan is from an extrapolation of the January 1, 2019 valuation to December 31, 2019.

	2019 \$	2018 \$
Benefit obligation, end of year	(8,483,000)	(8,456,000)
Plan assets fair value, end of year	11,716,000	10,565,000
Plan surplus	3,233,000	2,109,000
Valuation allowance	(803,000)	(298,000)
Defined benefit asset	2,430,000	1,811,000

Thunder Bay International Airports Authority Inc.

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The changes in accrued pension benefits obligations are:

	2019 \$	2018 \$
Balance, beginning of year	1,811,000	1,795,000
Total current service and finance cost expense	(11,000)	(1,000)
Remeasurement and other items	407,000	(284,000)
Employer contributions	223,000	301,000
Balance, end of year	2,430,000	1,811,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations as of January 1, 2019 are as follows:

Discount rate	4.50%
Expected long-term rate of return on plan assets	4.50%
Rate of compensation increase	2.50%
Inflation rate	2.00%

The Authority pays into a defined contribution plan with Great-West Life for certain employees. During the year, the Authority made total payments of \$92,345 [2018 - \$51,979] to the plan which was recognized as an expense during the year.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019 \$	2018 \$
Accounts payable and accrued liabilities	3,842,305	3,093,343
Government remittances	3,368	4,044
Income taxes payable	37,421	199
Harmonized sales tax payable	6,622	7,757
	3,889,716	3,105,343

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8. LONG-TERM DEBT

[a]	2019 \$	2018 \$
Toronto-Dominion Bank		
Term loan repayable in monthly instalments of \$20,232 plus interest and a stamping fee of 0.93% per annum [2.91% combined at year-end], maturing January 31, 2022. Loan was repaid in the year.	-	1,699,358
Term loan repayable in monthly instalments of \$9,405 plus interest and a stamping fee of 0.93% per annum [2.91% combined at year-end], maturing January 1, 2022 by way of a committed term loan which will be payable over 20 years. Loan was repaid in the year.	-	1,521,105
Term loan repayable in monthly instalments of \$56,094 plus interest and a stamping fee of 0.93% per annum [2.91% combined at year-end], maturing 5 years from the date of each draw down which is being repaid over 10 years.	5,553,306	5,835,276
Term loan repayable in monthly instalments of \$107,658 plus interest and a stamping fee of 0.93% per annum [2.91% combined at year-end], maturing 5 years from the date of each draw down which is being repaid over 10 years.	8,290,907	10,209,074
Term loan repayable in monthly instalments of \$22,159 plus interest and a stamping fee of 0.93% per annum [2.91% combined at year-end], maturing 5 years from the date of each draw down which is being repaid over 10 years.	2,437,362	-
	16,281,575	19,264,813
Less amounts included in current liabilities	2,230,836	1,658,132
Long-term portion	14,050,739	17,606,681

As collateral for the Toronto-Dominion Bank term loans, the Authority has provided a general security agreement and other security as described in note 2.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

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[b] Although the term loans mature earlier, the principal repayments are based on management's intentions to renew terms loans under similar terms. The undiscounted cash flows required over the next five years are as follows:

	\$
2020	2,230,836
2021	2,227,311
2022	2,227,311
2023	2,227,311
2024	2,129,752
Thereafter	5,239,054
	<u>16,281,575</u>

9. RETIREMENT ALLOWANCE LIABILITY

Under the terms of the transfer agreement with Transport Canada, the Authority assumed the Government of Canada's obligation to pay its former employees compensation upon retirement or termination in accordance with the collective agreements. The Authority has continued to record the liability in accordance with the agreements on the assumption that the qualifying conditions will be met.

Information about the Authority's retirement allowance liability is as follows:

	2019 \$	2018 \$
Balance, beginning of year	338,566	442,770
Expense for the year	13,153	24,864
Benefits paid during the year	(45,816)	(129,068)
Balance, end of year	305,903	<u>338,566</u>

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions consist of the unamortized balance of contributions received by the Authority which have been expended on capital assets as approved by the contributors. The amortization of capital contributions is recorded as revenue in the consolidated statement of operations.

	2019 \$	2018 \$
Balance, beginning of year	6,848,031	3,799,399
Contributions received during year	2,174,569	3,204,947
Amortization	(322,931)	(156,315)
Balance, end of year	8,699,669	<u>6,848,031</u>

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Notes to the Consolidated Financial Statements

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11. INVESTMENT IN PROPERTY AND EQUIPMENT

[a] Investment in property and equipment is calculated as follows:

	2019	2018
	\$	\$
Property and equipment at net book value	36,839,467	36,928,360
Amounts financed by:		
Deferred capital contributions	(8,699,669)	(6,848,031)
Long-term debt	(16,281,575)	(19,264,813)
	11,858,223	10,815,516

[b] Change in net assets investment in property and equipment is calculated as follows:

	2019	2018
	\$	\$
Excess (shortfall) of revenue over expenses		
Amortization of deferred capital contributions	322,931	156,315
Amortization of property and equipment	(3,031,773)	(2,586,575)
	(2,708,842)	(2,430,260)

[c] Net change in investment in property and equipment:

	2019	2018
	\$	\$
Purchase of property and equipment	2,942,880	8,366,741
Amounts funded by:		
Restricted contributions	(2,174,569)	(3,204,947)
Loan proceeds	(2,942,473)	(6,661,823)
Repayment of long-term debt	5,925,711	1,839,700
	3,751,549	339,671

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

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12. STATEMENT OF CASH FLOWS

[a] The net change in non-cash working capital accounts related to operations is represented by the following:

	2019	2018
	\$	\$
Decrease (increase) in current assets		
Accounts receivable	(10,254,865)	(464,024)
Inventory, at cost	2,008	(13,730)
Prepaid expenses and deposits	(125,555)	34,885
Due from the Red Lake Airport	214,942	51,002
	(10,163,470)	(391,867)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	784,373	1,266,940
Deferred revenue	(15,397)	83,319
	768,976	1,350,259
	(9,394,494)	958,392

[b] During the year, property and equipment were acquired at an aggregate cost of \$2,942,880 [2018 - \$8,366,741] of which \$2,174,569 [2018 - \$3,204,947] were funded by restricted contributions and \$768,311 [2018 - \$5,161,794] were funded by debt.

13. COMMITMENTS

The Authority has a Ground Lease with Transport Canada which calculates rent as a percentage of revenue using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below \$5 million, 1% for revenue between \$5 and \$10 million, 5% for revenue between \$10 and \$25 million, 8% for revenue between \$25 and \$100 million, 10% for revenue between \$100 and \$250 million, and 12% for revenue in excess of \$250 million.

The Authority has entered into contracts for the Hold Baggage Screening recapitalization project in the Airport Terminal. The contracts are valued at \$4.2 million. At year-end, \$2.6 million remains to be incurred in future periods with respect to the project.

The Authority has entered into contracts to purchase two fire trucks. The contracts are valued at \$2 million. The purchases are anticipated to take place in June, 2020, and January, 2021.

The Authority has entered into two forward contracts with the Toronto-Dominion Bank to purchase USD \$744,379 on each of June 26, 2020 and January 4, 2021, at exchange rates of 1.32437 and 1.32623, respectively.

Thunder Bay International Airports Authority Inc.

Notes to the Consolidated Financial Statements

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14. FINANCIAL INSTRUMENTS

The Authority is exposed to various risks through its financial instruments. The following analysis provides a measure of the Authority's risk exposure and concentration at December 31, 2019.

[a] Credit risk

Credit risk is the risk that a third party will fail to discharge its obligation to the Authority reducing the expected cash inflow from the Authority assets recorded at the consolidated statement of financial position date. Credit risk can be concentrated debtors that are similarly affected by economic or other conditions. A significant portion of the Authority's revenues and resulting receivable balances are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses. There was no significant change in exposure from the prior year.

[b] Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in raising funds to meet its obligations to suppliers and debtors. The Authority is exposed to this risk mainly in respect of its long-term debt, contributions to the pension plan and accounts payable. To manage liquidity, the Authority maintains sufficient cash balances and has sufficient credit facilities in place should cash requirements exceed cash generated from operating activities. There was no significant change in exposure from the prior year.

[c] Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

i) Currency risk

Exposure to currency risk arises due to fluctuations in foreign exchange rates, which will affect the cash flows of financial instruments. At year-end, equities of \$1,380,367 are denominated in U.S. dollars and cash and cash equivalents of \$919,314 are denominated in European euros and translated to Canadian dollars. There was no significant change in exposure from the prior year.

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ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is exposed to interest rate risk on its floating interest rate financial instruments. Given the current composition of long-term debt, floating-rate instruments subject it to a cash flow risk and fixed rate instruments subject it to a fair value risk. There was no significant change in exposure from the prior year.

iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Authority is exposed to other price risk through its investments quoted in an active market.

15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 consolidated financial statements.

16. SUBSEQUENT EVENTS

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Authority has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year-ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Authority for future periods.

Thunder Bay International Airports Authority Inc. Consolidated Schedule of Revenue

Year ended December 31	2019	2018
	\$	\$
Airside	3,451,037	3,279,968
Industrial land leases	872,508	831,387
Miscellaneous	240,934	183,617
Parking and ground transportation	1,964,177	2,002,921
Terminal	4,687,849	4,907,382
Amortization of deferred capital contributions <i>[note 10]</i>	322,931	156,315
Federal rent recovery	173,400	202,355
	11,712,836	11,563,945
Revenue from business initiatives	1,175,333	856,287
	12,888,169	12,420,232

Included in revenue from business initiatives are net sales and commissions as follows:

	2019	2018
	\$	\$
Part sales	120,444	175,606
Consignment part sales	16,191	10,154
	136,635	185,760
Direct costs		
Cost of parts	99,575	136,130
Cost of consignment parts	13,734	18,902
	113,309	155,032
Net sales and commissions	23,326	30,728

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