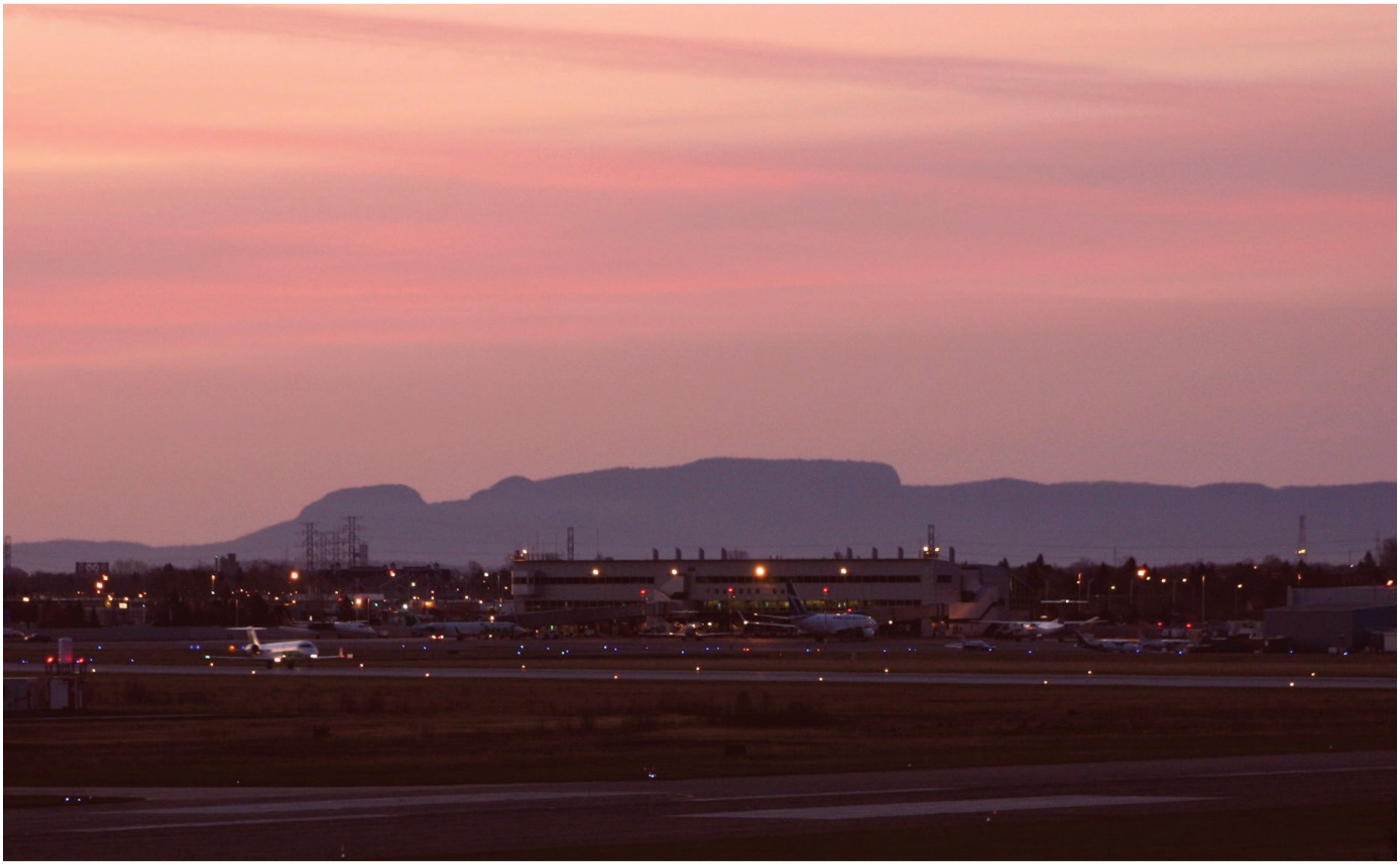
THUNDER BAY INTERNATIONAL AIRPORTS AUTHORITY INC. 2017 ANNUAL REPORT

Thunder Bay Airport

the right approach

to serving you better

TABLE OF CONTENTS



IN 2017, WE CONTINUED TO FOCUS OUR EFFORTS ON THE ENHANCEMENT OF CUSTOMER-CENTRIC OPERATIONAL EXCELLENCE WITH AN EMPHASIS ON AVIATION SAFETY.

THE BOARD OF DIRECTORS STATED OBJECTIVES WE CONTINUE TO SPOTLIGHT ARE:

1. TO INCREASE THE NUMBER OF AIRCRAFT AVAILABLE, IN TURN STEADILY INCREASE OUR PASSENGER VOLUMES.
2. KEEP ALL EMPLOYEES, PASSENGERS, AND VISITORS SAFE, SERVICED AND COMFORTABLE.
3. WHENEVER POSSIBLE, SUPPORT OUR LOCAL ECONOMY.

READY FOR TAKEOFF

✓ The Thunder Bay International Airport hosted the Anotonov AN-124 one of the world's largest aircraft in 2017; This was the largest aircraft to ever land at Thunder Bay Airport.

✓ For the second year in a row, passenger volumes hit an all time high and grew by 4.7% to reach 844,627

2017 will be remembered as a year of record setting aviation activity for Thunder Bay International Airports Authority Inc. (TBIAA) reinforcing that Thunder Bay Airport is open for business and readily prepared for the future.

Air Service

Passenger volumes hit an all-time high for a second consecutive year. After exceeding 807,000 passengers (just like the area code) in 2016, 2017 saw volumes grow by 4.7% to reach 844,627.

Airport Safety & Operational Performance

Numerous advances have been made in the area of airfield electronic data collection. This data monitors numerous occurences such as weather conditions, bird and wildlife sitings and foreign object debris (FOD) clean up to assist us adjusting activities towards improving operational safety.

Environmental Stewardship

TBIAA is committed to environmental sustainability. Activities include glycol (de-icing fluid) collection and re-cycling, continuous monitoring of the water quality of storm water effluent, and audits of fuel tanks using the Storage Tank Systems for Petroleum Products and Allied Petroleum Products Regulations.

Sustainability projects in 2017 included the continued installation of additional LED (Light Emitting Diode) lighting in various airside locations.

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, especially those that could affect fish and fish habitat, species at risk, and migratory birds. The evaluation includes a checklist to help safeguard air, water, and soil quality. In 2017, we determined that no projects were likely to cause significant adverse environmental effects.

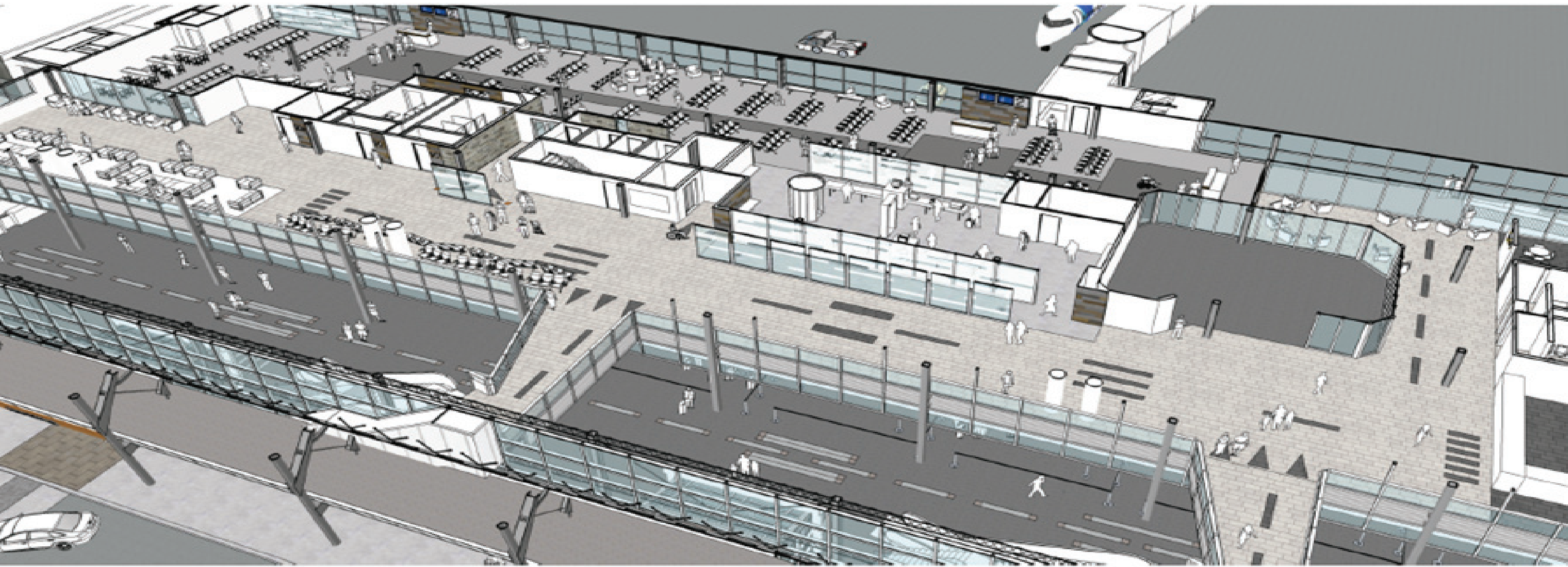
Heavy Lifting

Twice during the past year, TBIAA hosted one of the world’s largest aircraft. The Antonov AN-124 flew direct, non-stop from Vienna, Austria to Thunder Bay delivering bulk cargo. The size of the cargo and the aircraft demonstrated another way we are poised to support the local economy.

RESTORATION & RENOVATION

✓ 2017 was the year for rolling out our major expansion of the Air Terminal Building. This is the first expansion of the terminal building since it was opened in 1994.

✓ Airfield restoration continued from previous years, with the reconstruction of the main taxiway and intersection of our two largest taxiways



Emergency Preparedness

TBIAA hosted a large scale Emergency Exercise in September of 2017. Designed to test not only airport preparedness, but also those of other response agencies. The exercise saw well over 100 people and 7 agencies participate including Thunder Bay Police, Superior North EMS, Thunder Bay Fire Rescue,Thunder Bay Regional Health Sciences Centre, Happy Time Tours, Air Canada and Bearskin Airlines.

TBIAA would like to thank all responding agencies for their commitment of time and resources. TBIAA would also like to thank its employees who played a variety of roles to ensure the exercise provided a worthwhile learning experience for all participants.

Construction Projects

Airfield restoration continued with the reconstruction of our main Taxiway and the intersection of our two largest taxiways. Our thanks to WSP and Pioneer Construction on their efforts.

Work was initiated on our first major expansion of the Air Terminal Building (ATB) since it was opened in 1994. When completed, this project will:

- Expand the departure lounge by 55%
- Increase Customs clearance space five-fold.
- Utilize the latest in Passenger Pre-Board Screening technologies furnished by the Canadian Air Transport Security Authority (CATSA).

A Community Partner

TBIAA prides itself on supporting local suppliers as much as possible. In a year where substantial capital work was completed, TBIAA's consolidated cash outlay (operating and capital) exceeded $16.4 million. Of that, over $14.2 million (86%) was expended with local suppliers.

TBIAA again donated to the Thunder Bay Regional Health Sciences Centre (TBRHSC) "Cancer Care beyond Compare" campaign. Donations were targeted directly to the installation and operation of the isotope-generating cyclotron with the hope that this cutting edge technology will simultaneously generate further health care improvements and new economic development opportunities.

This past year, CBC broadened its "Sounds of the Season" food drive and expanded the Airport Authority's participation for this event.

A full day of local and national radio broadcasting was hosted in the Air Terminal Building. Four companies donated aircraft to deliver food to a number of fly-in communities. The generosity of Bearskin / Perimeter Aviation, KBM Aviation, North Star Air and Wasaya Airways was inspirational.

A COMMUNITY PARTNER

- ✓ Thunder Bay Airport is proud to support local suppliers as much as possible, and work with many organizing committees to successfully execute events happening in our city.

- ✓ This past year was not any different, with the Airport Authority hosting "Sounds of the Season" a CBC Broadcasting event to help the Regional Food Distribution Association (RFDA).

The generosity of Bearskin / Perimeter Aviation, KBM Aviation, North Star Air and Wasaya Airways was inspirational.

TBIAA canvassed many friends on and off the airport to help the Regional Food Distribution Association (RFDA) with other out-of-pocket expenses associated with getting food to their clients. A staggering $35,000 was raised in just over two weeks!

Financial Results

TBIAA reported another strong year of consolidated earnings. The year finished with a surplus in excess of operations of $2.5 million.

Pursuant to the public accountability principles for Canadian Airport Authorities, general by-laws, and Thunder Bay International Airports Authority Inc. procurement policy for goods and services, all contracts valued 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 reasons of efficiency and practicality, decides otherwise. There were no exceptions to the policy in 2017.

Bidding Farewell

The past year saw three long time employees retire. The contributions, comradery, and humour of Tom Makela, Wayne Maxwell, and Margaret Rooney are missed.

2017 also saw Walter Turek, a long standing employee depart us as well. We wish Walter and our retirees all the very best.

Employee Performance

The increase in construction has required additional effort from our staff. We thank our employees for contributing to the positive execution of the capital plan while maintaining a keen focus on day-to-day operations and customer service. Their vigilance in support of aviation safety and customer service is greatly appreciated.

Thank You

During this year of record setting aviation activity, we would like to thank all of our customers and partners for their continued support.

Dave Siciliano

Chair of the Board

Ed Schmidtke

President &

Chief Executive Officer

A LOOK BACK...

In September, Porter Airlines announced a crew base would be opening in Thunder Bay for early 2018.

Students from Dennis Franklin Cromarty High School stand together to showcase their artwork that now hangs in the terminal building done in partnership with well-known Woodland artist Saul Williams.

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 fulfill 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, 2017

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 Labour (1)
Paul Inksetter

There were no changes to TBIAA's Board of Directors in 2017.

Board Compensation for 2017

Ken Boshcoff	$14,100
Paul Inksetter	$13,600
Dave Siciliano ***(Chair)***	$19,800
Rick Trochimchuk	$15,150
Craig Urquhart	$14,300
Gary Woodbeck	$14,100

MANAGEMENT TEAM

President & Chief Executive Officer

Ed Schmidtke

Controller
Sharon Kelly

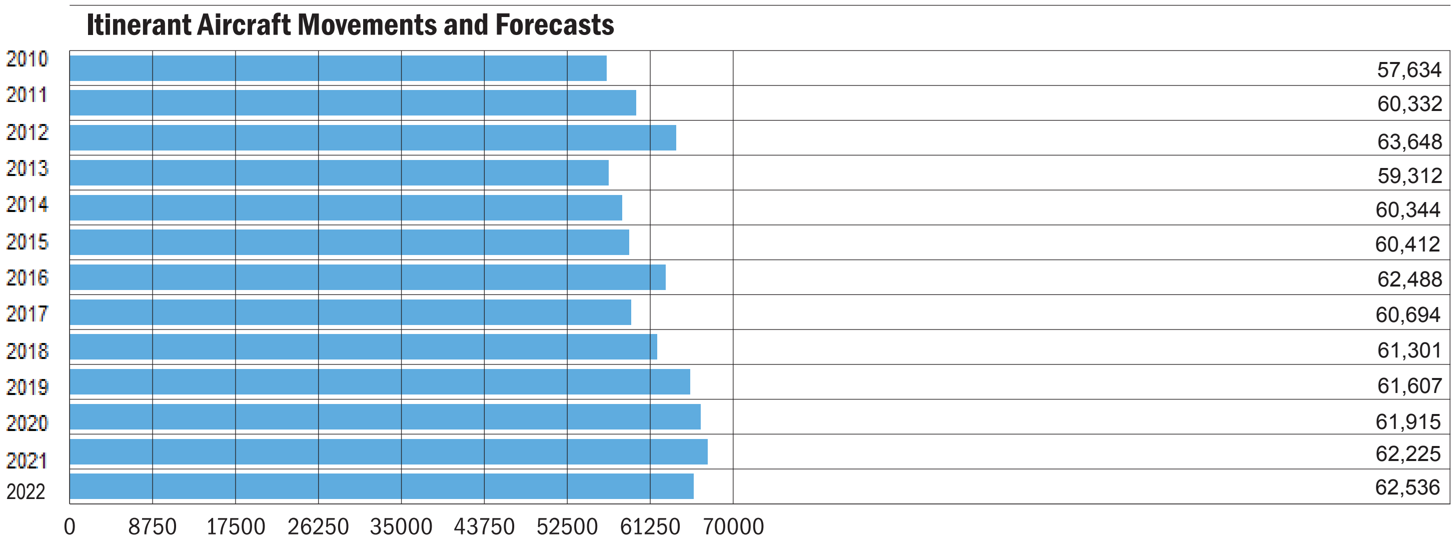
Manager, Airside Services
Ryan Brading

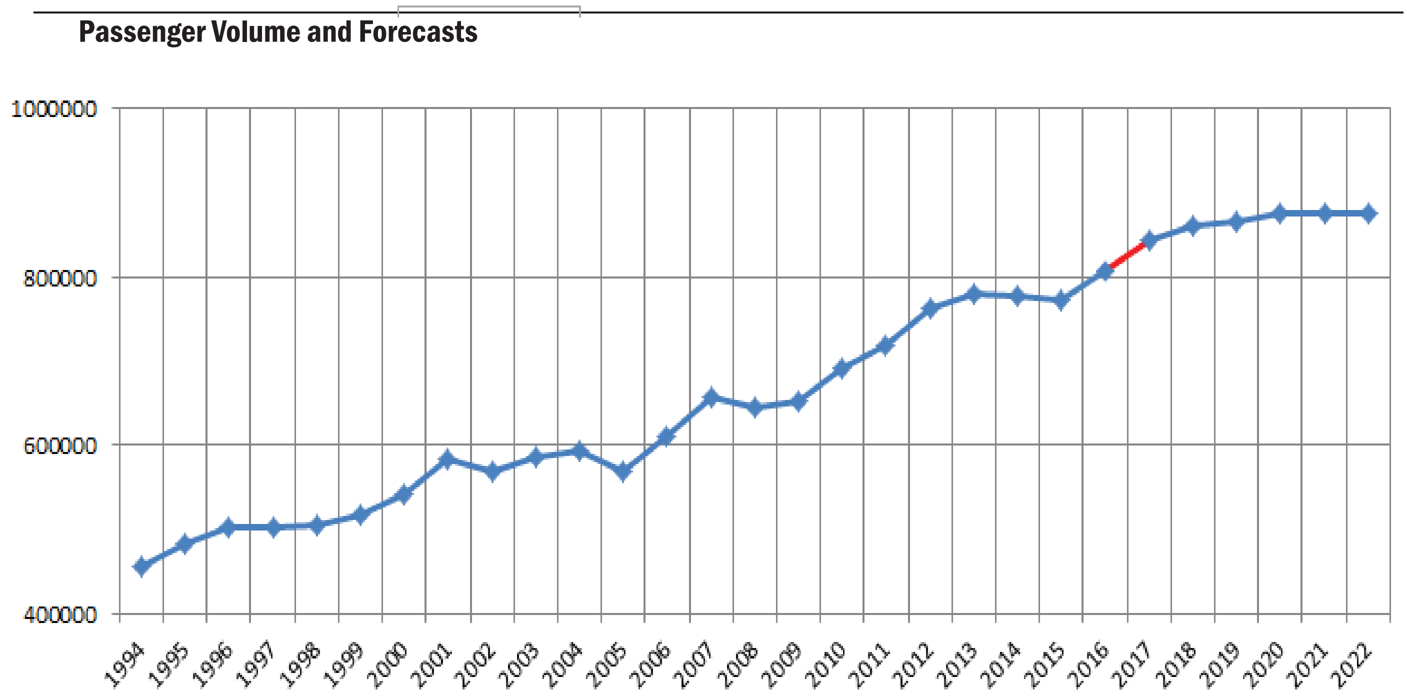
Manager, Quality Assurance & Safety
Sarah Parkes

SGE Ltd.
Malcolm Armstrong

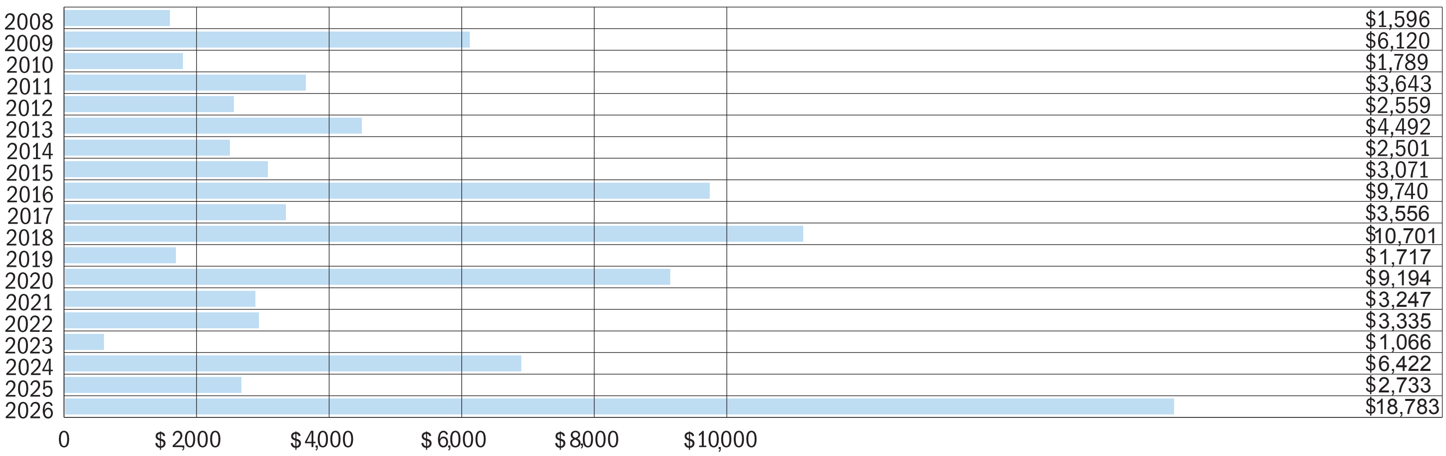
TBAS, Inc.
Red Lake Airport-Duane Riddell

Combined salaries of the senior management team: $534,855.00

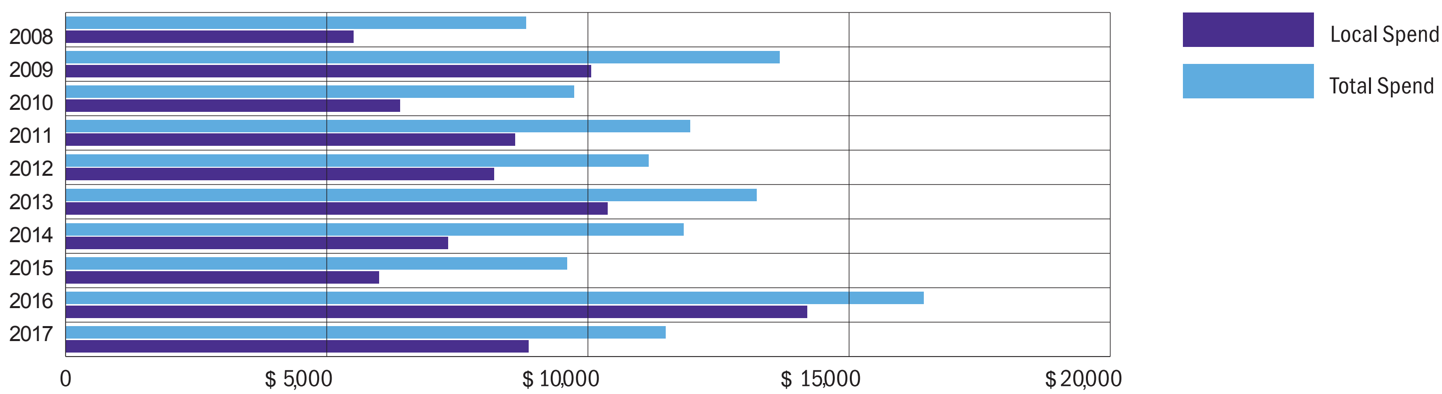

Itinerant Aircraft Movements and Forecasts
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
57,634
60,332
63,648
59,312
60,344
60,412
62,488
60,694
61,301
61,607
61,915
62,225
62,536
0
8750
17500
26250
35000
43750
52500
61250
70000


Passenger Volume and Forecasts
1000000
800000
600000
400000
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022

Capital Expenditures & Forecasts **($000)**

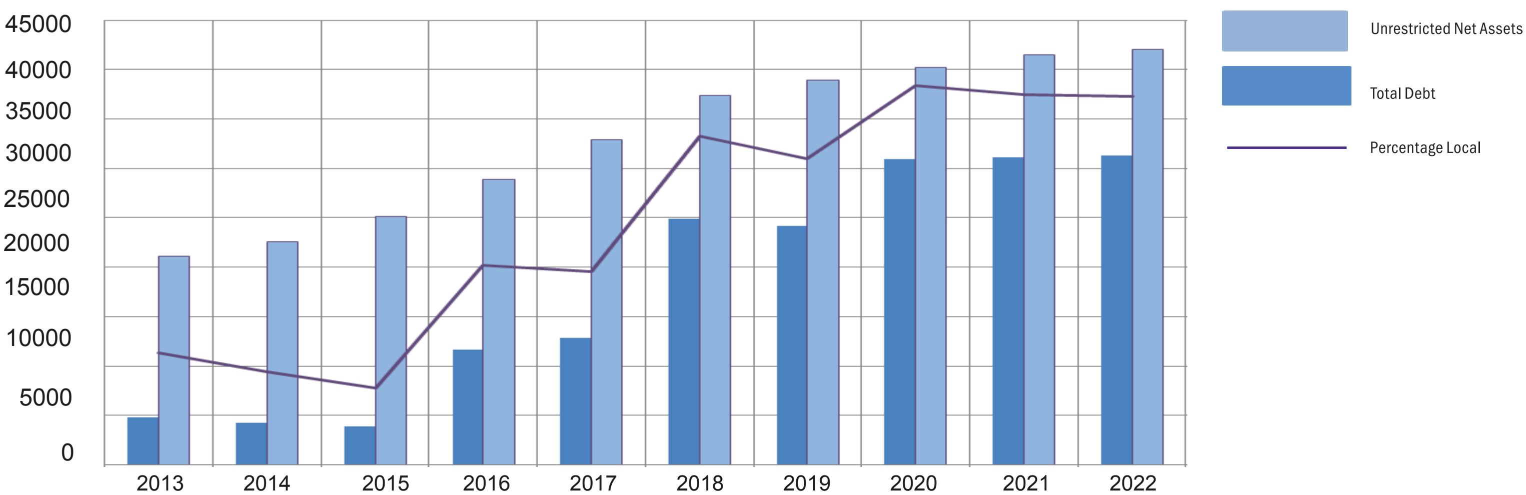


Total Expenditures to Local Suppliers **($000)**



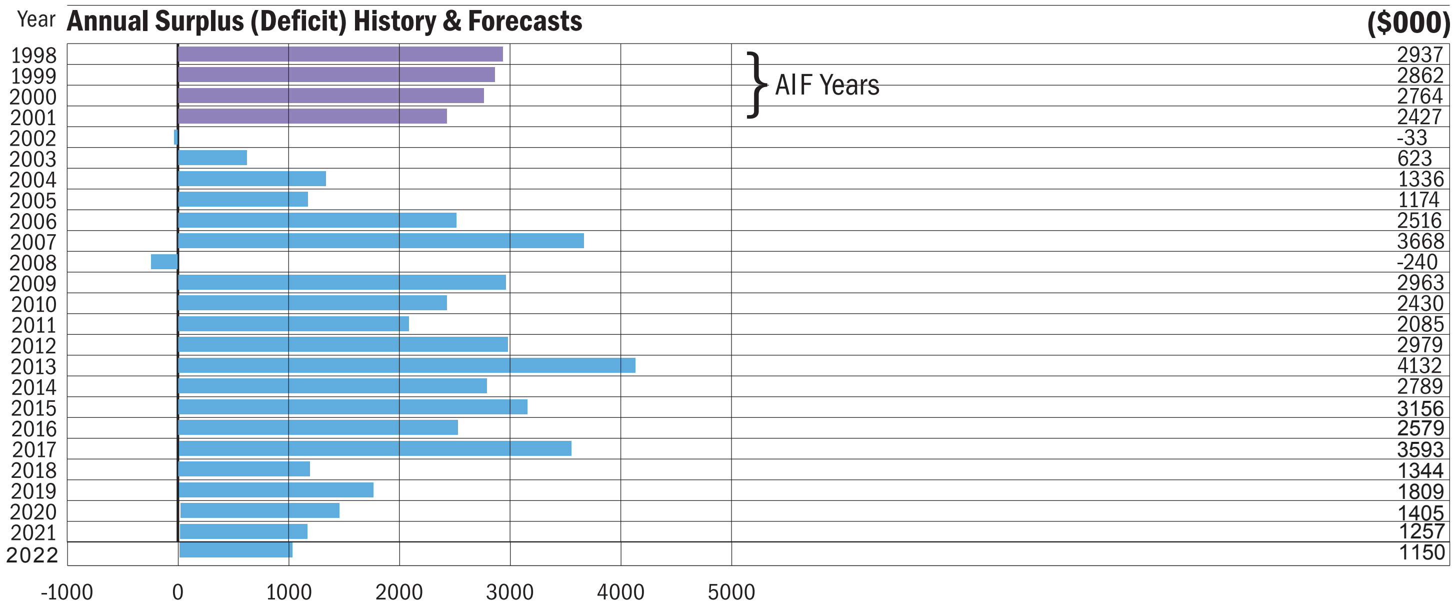
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Spend	$8,818	$13,670	$9,733	$11,960	$11,162	$13,233	$11,836	$9,602	$16,432	$10,583
Local Spend	$5,513	$10,063	$6,397	$8,601	$8,203	$10,372	$7,317	$5,995	$14,194	$9,259
Percentage Local	63%	74%	66%	72%	73%	78%	62%	62%	86%	87%

Comparison of Long Term Debt to Unrestricted Net Assets

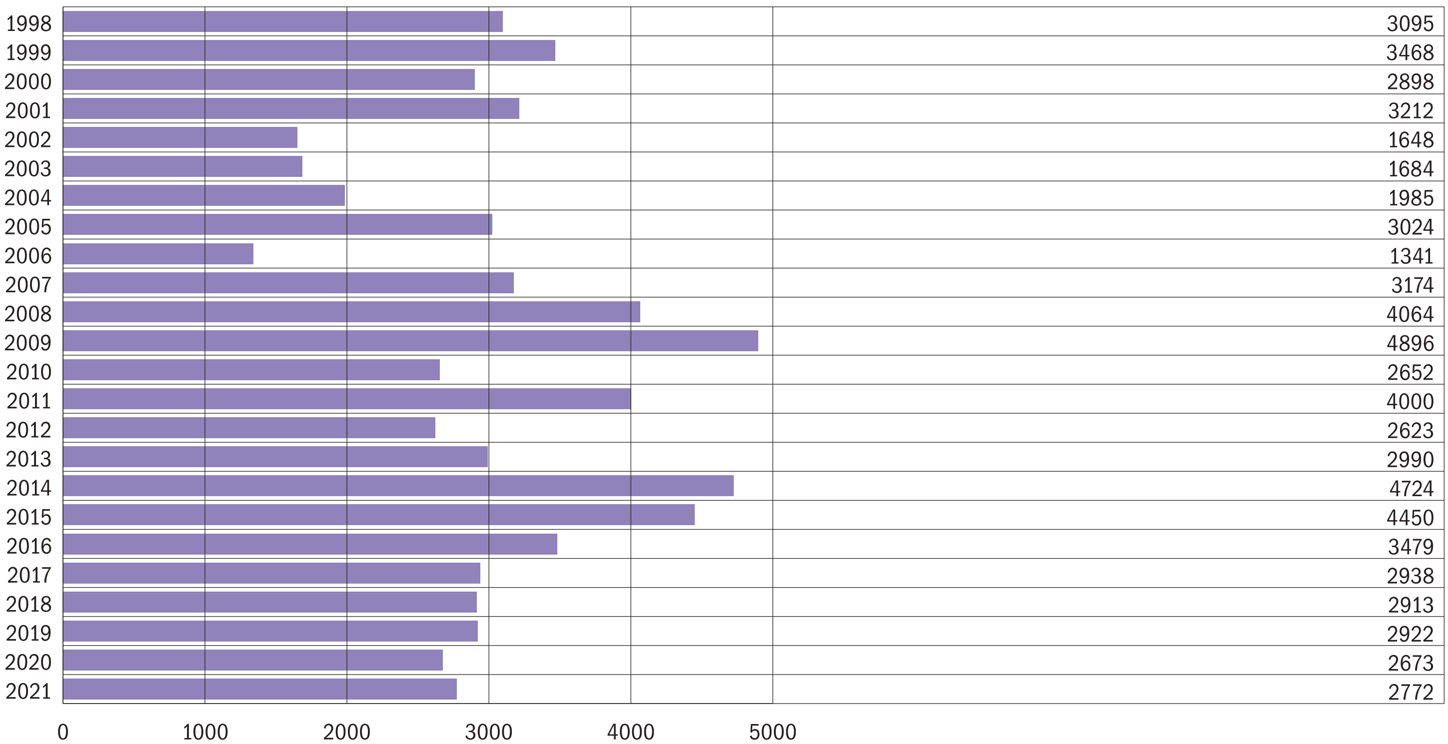


Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt	$ 4,257	$ 3,907	$ 11,629	$ 12,869	$ 24,917	$ 24,142	$ 30,922	$ 31,077	$ 31,304
Unrestricted Net Assets	$ 22,569	$ 25,110	$ 28,853	$ 32,867	$ 37,420	$ 38,927	$ 40,238	$ 41,465	$ 42,007
Percentage Local	19%	16%	40%	39%	67%	62%	77%	75%	75%

Annual Surplus (Deficit) History & Forecasts ($000)



Cash Provided by Operating Activites with Forecasts **($000)**



Grant Thornton

Independent Auditor's Report

To the Directors of

Thunder Bay International Airports Authority Inc.

We have audited the accompanying consolidated financial statements of Thunder Bay International Airports Authority Inc., which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Thunder Bay International Airports Authority Inc. as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Grant Thornton LLP

Chartered Professional Accountants

Licensed Public Accountants

Thunder Bay, Canada

March 28, 2018

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Operations

Year ended December 31	2017	2016
	$	$
REVENUE *[schedule]*	**11,763,130**	11,105,765
EXPENSES		
Direct		
Advertising and promotion	**125,922**	126,015
Benefits	**497,340**	550,901
Contracted maintenance	**364,087**	425,990
Contracted services	**751,673**	576,702
Equipment rentals	**1,074**	2,995
Federal rent	**136,005**	102,250
Materials and supplies	**481,465**	543,387
Office and administration	**148,470**	66,017
Professional and consulting fees	**161,011**	343,240
Purchased repairs	**135,233**	87,227
Salaries	**2,986,548**	2,905,576
Telephone	**24,246**	28,103
Training and meetings	**41,288**	59,103
Travel	**52,251**	47,063
Utilities	**597,280**	546,100
	6,503,893	6,410,579
Indirect		
Amortization	**2,487,166**	2,194,727
Bad debts	**2,235**	13,074
Directors' fees	**91,050**	109,134
Payment in lieu of property taxes	**405,624**	409,892
Insurance	**122,422**	122,698
Interest and bank charges		
Interest on long-term debt	**56,096**	66,259
	269,113	142,256
	3,433,706	3,058,040
Total expenses	**9,937,599**	9,468,619
Earnings before the following	**1,825,531**	1,637,146
Realized earnings on investments	**1,042,366**	852,119
Fair market value adjustment	**898,885**	231,874
Gain (loss) on sale of property and equipment	**(9,065)**	(141,542)
Excess of revenue over expenses	**3,757,717**	2,579,597

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Financial Position

As at December 31	2017	2016
	$	$
ASSETS		
Current		
Cash and cash equivalents	**757,990**	693,123
Accounts receivable *[note 3]*	**2,022,303**	1,106,230
Inventory, at cost	**56,649**	26,312
Prepaid expenses and deposits	**177,629**	184,879
Due from the Municipality of Red Lake	**-**	99,487
Total currentassets	**3,014,571**	2,110,031
Property and equipment, net *[note 4]*	**31,148,195**	29,976,207
Other		
Investments *[note 5]*	**31,033,900**	27,017,732
Defined benefit asset *[note 6]*	**1,795,000**	1,577,000
Total other assets	**32,828,900**	28,594,732
	66,991,666	60,680,970
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 7]*	**1,096,770**	1,096,770
Due to the Municipality of Red Lake	**69,122**	-
Due to Marcel Boschung AG	**-**	8,045
Current portion of long-term debt *[note 8[a]]*	**1,573,308**	1,262,268
Deferred revenue	**151,948**	215,704
Total current liabilities	**3,656,617**	2,582,787
Non-current		
Security deposits	**40,480**	40,480
Long-term debt *[note 8[a]]*	**12,869,382**	11,629,488
Retirement allowance liability *[note 9]*	**442,771**	489,941
Deferred capital contributions *[note 10]*	**3,799,399**	3,467,974
Total non-current liabilities	**17,152,032**	15,627,883
Net assets		
Investment in property and equipment *[note 11[a]]*	**12,906,106**	13,616,477
Unrestricted	**33,276,911**	28,853,823
Net assets	**46,183,017**	42,470,300
	66,991,666	60,680,970

See accompanying notes to the consolidated financial statements. On

behalf of the Board:

Director

C. Urquhart

Director, Chair Finance, Audit Committee

R. Trochimchuk

Thunder Bay International Airports Authority Inc.

Consolidated Statement of Changes in Net Assets

Year ended December 31			2017	2016
	Investment in Property and Equipment	**Unrestricted**	**Total**	Total
	$ ***[note 11]***	$	$	$
Net assets, beginning of year	**13,616,477**	**28,853,823**	**42,470,300**	40,098,703
Excess (shortfall) of revenue over expenses	**(2,339,916)**	**6,097,633**	**3,757,717**	2,579,597
Net change in investment in property and equipment	**1,629,545**	**(1,629,545)**	**-**	-
Pension remeasurement and other items *[note 6]*	**-**	**(45,000)**	**(45,000)**	(208,000)
Net assets, end of year	**12,906,106**	**33,276,911**	**46,183,017**	42,470,300

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31	**2017**	2016
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses	**3,757,717**	2,579,597
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization	**2,487,166**	2,194,272
Amortization of deferred capital contributions	**(156,315)**	(156,314)
Increase in accrued benefit asset	**(263,000)**	(295,000)
Increase in retirement allowance liability	**(47,170)**	15,496
Interest added to long-term debt	**-**	-
Fair market value adjustment	**(898,885)**	(231,874)
Loss (gain) on sale of property and equipment	**9,065**	141,542
	4,888,578	4,248,174
Net change in non-cash working capital balances related to operations *[note 12[a]]*	**(76,883)**	(768,203)
Cash provided by operating activities	**4,811,695**	3,479,971
INVESTMENT ACTIVITIES		
Purchase of property and equipment *[note 12[b]]*	**(3,669,999)**	(9,589,284)
Increase in investments, net	**(3,117,283)**	(4,328,494)
Proceeds on disposal of property and equipment	**1,780**	
151,209 **Cash used in investment activities**	**(6,785,502)**	(13,766,569)
FINANCING ACTIVITIES		
Loan proceeds	**2,891,290**	9,131,319
Repayment of long-term debt	**(1,340,356)**	(501,708)
Deferred capital contributions	**487,740**	-
Cash provided by (used in) financing activities	**2,038,674**	8,629,611
Increase (decrease) in cash and cash equivalents during year	**64,867**	(1,656,987)
Cash and cash equivalents, beginning of year	**693,123**	2,350,110
Cash and cash equivalents, end of year	**757,990**	693,123

See accompanying notes to the consolidated financial statements.

GENERAL

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

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., Sleeping Giant Enterprises Ltd. 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.

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 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.

December 31, 2017

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 Municipality of Red Lake
- due to Marcel Boschung AG
- security deposits
- accounts payable and accrued liabilities
- 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:

Financial instrument	Subsequent measurement
Cash and cash equivalents	Amortized cost (which approximates fair value)
Accounts receivable	Amortized cost
Investments	Fair Value
Due to/from the Municipality	Amortized cost of Red Lake
Due to Marcel Boschung AG	Amortized cost
Security deposits	Amortized cost
Accounts payable and accrued liabilities	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.

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.

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 are translated using the exchange rate of U.S. $1 = Cdn $1.2545.

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:

Financial statement element	Management estimate
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 INDEBTESS

Toronto-Dominion Bank

The Authority has available a demand operating loan of $500,000 [2016 - $500,000] bearing interest at the bank's prime lending rate plus 0.5% per annum [3.7% at December 31, 2017]. $Nil [2015 - $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 the 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.

The Authority has guaranteed bank advances of its subsidiary, Sleeping Giant Enterprises Ltd., up to a limit of $1,500,000. At December 31, 2017, advances of $nil [2016 - $nil] were outstanding.

3. ACCOUNTS RECEIVABLE

	2017	2016
	$	$
Trade accounts receivable	**2,073,206**	1,075,649
Allowance for doubtful accounts	**(50,903)**	(49,036)
Harmonized Sales Taxes receivable	**-**	39,636
Income taxes receivable	**-**	39,981
	2,022,303	1,106,230

4. PROPERTY AND EQUIPMENT

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

	Cost	**Accumulated amortization**	**2017 Net book value**	2016 Net book value
	$	**$**	**$**	$
Airside equipment	**3,968,423**	**2,045,698**	**1,922,725**	2,169,174
Computer hardware	**370,186**	**364,790**	**5,396**	2,335
Computer software	**607,486**	**573,586**	**34,260**	59,451
Land and land transfer costs	**1,158,108**	**61,244**	**1,096,864**	1,099,926
Land development costs	**6,885,510**	**1,985,117**	**4,900,393**	5,119,028
Leasehold improvements	**17,719,962**	**7,199,097**	**10,520,865**	8,103,959
Office furniture and equipment	**291,922**	**266,568**	**25,354**	47,070
Runway upgrades	**17,635,506**	**5,637,261**	**11,998,245**	12,785,519
Security upgrades	**3,183,786**	**3,183,786**	**-**	-
Vehicles and equipment	**2,749,615**	**2,105,522**	**644,093**	589,745
	54,570,864	**23,422,669**	**31,148,195**	29,976,20

Amortization for the year is $2,487,166 [2016 - $2,194,727]. Included in property and equipment balances are $1,445,311 of assets not being amortized as they ar not ready for productive use.

5. INVESTMENTS

	2017 Cost	**2017 Market**	2016 Cost	2016 Market
	$	**$**	$	$
Cash and cash equivalents	**1,070,807**	**1,071,102**	1,487,994	1,488,128
Fixed income *	**18,172,816**	**18,307,250**	15,382,873	15,441,976
Equity *	**8,703,359**	**11,655,548**	7,958,219	10,087,628
Total	**27,946,982**	**31,033,900**	24,829,086	27,017,732

* 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, 2017. The following information concerning the Plan is from an extrapolation of the January 1, 2017 valuation to December 31, 2017:

	2017 **$**	2016 $
Benefit obligation, end of year	**(8,073,000)**	(7,651,000)
Plan assets fair value, end of year	**10,626,000**	9,656,000
Plan surplus	**2,553,000**	2,005,000
Valuation allowance adjustment	**(758,000)**	(428,000)
Defined benefit asset	**1,795,000**	1,577,000

The changes in accrued pension benefits obligations are:

	2017 **$**	2016 $
Balance, beginning of year	**1,577,000**	1,490,000
Total current service and finance cost expense	**(115,000)**	(124,000)
Remeasurement and other items	**(45,000)**	(208,000)
Employer contributions	**378,000**	419,000
Balance, end of year	**1,795,000**	1,577,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations as of January 1, 2017 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 $49,411 [2016 - $39,539] to the plan which was recognized as an expense during the year.

December 31, 2017

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	$	$
Accounts payable and accrued liabilities	**1,765,473**	1,092,668
Government remittances	**5,314**	4,102
Income taxes	**34,870**	-
Harmonized sales tax payable	**56,582**	-
	1,862,239	1,096,770

8. LONG-TERM DEBT

[a]	**2017**	2016
	$	$
Toronto-Dominion Bank		
Term loan repayable in monthly installments of $20,232 plus interest and a stamping fee of 0.93% per annum [2.25% combined at year-end] maturing January 31, 2018.	**1,942,142**	2,184,926
Term loan repayable in monthly installments of $8,405 plus interest and a stamping fee of 0.93% per annum [2.25% combined at year-end], maturing January 1, 2018.	**1,621,965**	1,722,825
Term loan repayable in monthly installments of $95,057 plus interest and a stamping fee of 0.93% per annum [2.25% combined at year-end] maturing 5 years from the date of each draw down which is being repaid over 10 years.	**10,878,583**	8,984,005
	14,442,690	12,891,756
Less amounts included in current liabilities	**1,573,308**	1,262,268
Long-term portion	**12,869,382**	11,629,488

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 and a general hypothecation of stocks and bonds with Power of Attorney on marketable securities.

[b] Although the term loans mature in 2017, 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:

	$
2018	1,573,308
2019	1,573,308
2020	1,573,308
2021	1,573,308
2022	1,573,308
Thereafter	6,576,150
	14,442,690

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 is as follows:

	2017	2016
	$	$
Balance, beginning of the year	**489,941**	474,445
Expense for the year	**25,029**	15,496
Benefits paid during the year	**(72,199)**	-
Balance, end of year	**442,771**	489,941

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.

	2017	2016
	$	$
Balance, beginning of the year	**3,467,974**	3,624,288
Contributions received during year	**487,740**	-
Amortization	**(156,315)**	(156,314)
Balance, end of year	**3,799,399**	3,467,974

December 31, 2017

11. INVESTMENT IN PROPERTY AND EQUIPMENT

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

	2017 $	2016 $
Property and equipment at net book value	**31,148,195**	29,976,207
Amounts financed by:		
Deferred capital contributions	**(3,799,399)**	(3,467,974)
Long-term debt	**(14,442,690)**	(12,891,756)
	12,906,106	13,616,477

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

	2017 $	2016 $
Excess (shortfall) of revenue over expenses		
Amortization of deferred capital contributions	**156,315**	156,314
Amortization of property and equipment	**(2,487,166)**	(2,194,727)
Gain (loss) on sale of property and equipment	**(9,065)**	(141,542)
	(2,339,916)	(2,179,955)

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

	2017 $	2016 $
Purchase of property and equipment	**3,669,999**	9,589,284
Amounts funded by:		
Restricted contributions	**(487,740)**	-
Loan proceeds	**(2,891,290)**	(9,131,319)
Repayment of long-term debt	**1,340,356**	501,708
Proceeds on disposal of property and equipment	**(1,780)**	(151,209)
	1,629,545	808,464

December 31, 2017

12. STATEMENT OF CASH FLOWS

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

	2017 $	2016 $
Decrease (increase) in current assets		
Accounts receivable	**(916,073)**	(94,507)
Inventory, at cost	**(30,337)**	72,617
Prepaid expenses and deposits	**7,250**	41,780
Due from the Municipality of Red Lake	**99,487**	(99,487)
	(839,673)	(79,597)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**765,469**	(114.343)
Due to the Municipality of Red Lake	**69,122**	(105,025)
Due to Marcel Boschung AG	**(8,045)**	(527,627)
Deferred revenue	**(63,756)**	58,389
	762,790	(688,606)
	(76,883)	(768,203)

[b] During the year, property and equipment were acquired at an aggregate cost of $3,669,999 [2016 - $9,589,284] of which $2,891,290 [2016 - $9,131,319] were funded by debt and $778,709 [2016 - $457,965] by cash.

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.

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, 2017.

[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.

December 31, 2017

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 $1,159,236 are denominated in U.S. dollars and converted to Canadian dollars. There was no significant change in exposure from the prior year.

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. 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.

Consolidated Schedule of Revenue

Year ended December 31	2017 $	2016 $
Airside	3,088,671	2,937,647
Industrial land leases	783,673	741,980
Miscellaneous	157,481	158,704
Parking and ground transportation	1,798,814	1,695,698
Terminal	4,561,936	4,398,166
Amortization of deferred capital contributions *[note 11]*	156,315	
Federal rent recovery	54,190	181,401
	10,601,080	10,269,910
Revenue from business initiatives	1,162,050	835,855
	11,763,130	11,105,765

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

	2017 $	2016 $
Parts sales and other commissions	94,403	170,195
Consignment Part sales	8,611	-
	103,014	170,195
Direct costs		
Cost of parts	75,718	146,850
Cost of consignment parts	5,567	-
	81,285	146,850
Net sales and commissions	21,729	23,345