



Annual Report

2010 - 2011



NORTHWEST TERRITORIES
**POWER
CORPORATION**

An NT Hydro Company



Table of Contents

- In Memoriam. 1**
- Message from the President. 2**
- Vision, Mission, Values 3**
- Powered by People 4**
- NTPC is Proud to be Part of Your Community 14**
- Long Service Awards 2010 16**
- Board of Directors, Officers and Committees. 18**
- Corporate Governance 19**
- Management Discussion and Analysis 23**
- Financial Information 27**
 - Auditor’s Report. 28
 - Consolidated Financial Statements. 29
 - Consolidated Financial Summary 70



In Memoriam

The Northwest Territories Power Corporation is saddened by the loss of so many of its valued people. It is never easy to say goodbye, but we are honoured to remember our friends and colleagues.

Michael Coyne

Michael started with NTPC in September 1987 as an electrician in Cambridge Bay. He travelled north from Edmonton with his wife and daughters. Michael moved to Yellowknife, with NTPC, and took a job as an electrician in the Hydro Region in 1996. He brought a very well rounded electrical knowledge, starting as a contractor working on power houses in Gjoa Haven and Paulatuk. Michael would try anything, but always made safety his first priority.

Michael, who passed away suddenly while on vacation, loved to travel with his family — especially to Mexico. He spent many hours being a grandpa to his granddaughter and on his off time liked surfing on his computer. He survived by his wife Nadine, and daughters Erin, Mary, Patricia and Susan. We will miss Michael's quiet way and his quick-witted humour.

Shayne Stainbrook

Shayne joined NTPC's Engineering Department in Hay River in August 1990. He was instrumental in developing and evolving the Corporation's current AutoCAD drafting system and Meridian drawing filing system used by both Operations and Engineering. Drafting and all things related to drawings were the backbone of Shayne's position as CADD technologist.

Shayne met his wife, Divina, in Hay River and began his family here. Shayne, a devoted family man, always made time for his three sons, Nicholas, Alexander and William. During the hockey season, Shayne could be found at the rink, loudly supporting his son Nicholas. Shayne passed away peacefully surrounded by his family and is missed by all who knew and worked with him.

Julia Francis

Julia began working in the Inuvik office of NTPC in August 2003. She loved her position as administrative assistant/accounts payable clerk and Julia was a joy to have in the workplace, always pleasant and dedicated to her job.

Julia was instrumental in raising more than \$50,000 for cancer research. In one event called "Shave for Life", she signed up 15 NTPC employees to participate from Inuvik and Ft Simpson. Julia is survived by her two sons. We appreciated her friendly smiles and we miss her warmth and generosity.



Building a Foundation with Excellence

The Northwest Territories Power Corporation is going through a significant transformation. Since I came to the helm of this organization, we have been working to reorganize the structure of the entire group of companies to allow us to focus on developing, generating and delivering power in the most efficient, safe and reliable way possible.

We have developed a strategic plan to guide us through the next few years and in doing so, have focused on making internal changes to create positive change. Over the past several months we have performed an exhaustive internal consultation with staff, management, board of directors and our shareholder, the Government of the Northwest Territories to get their ideas on how to make the Corporation able to meet our customers' expectations.

Customers largely measure our performance on these basic principles:

- the reliability of the electricity we supply;
- our cost effectiveness (the price of providing electricity); and
- how well we are meeting the commitments we make.

In order to make these performance measurements achievable, we must first work on the foundations of our business — employee, operational, customer service and financial excellence. Each of these areas of excellence build upon the ones that came before it, creating a solid foundation from which to meet our customers' and shareholder's expectations.

Employee Excellence

No organization can be at its best without the support and buy-in of the people that power it. We believe that by supporting our employees to do their best and building upon their strengths, we can see them move up through the ranks of the Corporation. We are also working to develop and support apprenticeship programs in our communities to develop a sustainable pool of staff for generations to come.

Operational Excellence

When we have employee excellence, operational excellence is not far behind. By constantly challenging ourselves in ways to improve the generation and

delivery of power, we become more efficient, more reliable, more conscious of our environment and more productive.

Customer Service Excellence

Building upon our operational excellence, we find ways to demonstrate our commitment to our customers by delivering better customer service, improving our communication with our customers, treating them with care and by doing what we said we would do.

Financial Excellence

When employee, operational and customer service are at their peak, we are operating as cost effectively and efficiently as possible. It also means we are developing and integrating renewable technologies, while keeping costs in line with current rates.

Our long-term vision is to harness cost effective, local energy supply sources and where possible to integrate this energy supply into an expanded grid system in the NWT. This can only be done with a strong foundation of excellence. It's an ambitious undertaking, but from what I have seen, we are more than up to the challenge.

Emanuel DaRosa
Northwest Territories Power Corporation President

Message from the President

Emanuel DaRosa



Vision, Mission, Values

Vision

To be regarded as an exceptional utility, up to the challenge of delivering safe, reliable and fair-priced power through a territory-wide system that is efficient and sustainable.

Mission

To meet the electricity needs of the Northwest Territories today and tomorrow, by generating and distributing reliable power across Canada's most challenging operating environment.

Values

In achieving the Corporation's vision and mission, we will endeavour to:

- communicate in an open and timely manner;
- be cost effective in the utilization of all resources, always remembering that we are spending the customer's money;
- be responsive to our customers and their changing needs;
- act ethically and honestly, treating employees, customers and others with fairness, dignity and respect;
- commit to the safety of our employees and the public;
- respect and protect the environment in all our activities to ensure a sustainable environment for the NWT; and
- strive to increase shareholder value in the long-term.



Powered by People

2010-11, like every other year, was busy, productive and not without its challenges. But in this annual report of the Northwest Territories Power Corporation we want to show you how this corporation is built upon the commitment to excellence that our people demonstrate every day. It's our people that really power NTPC, who each day strive to meet the challenges that face them, and give their best no matter what comes their way.

Yes, it's our job to deliver safe and reliable power, but it's more than that. We do it because we live and work in our communities and we want what we do to matter. We do it because we're power customers too. So, in this annual report, we share some of what we have done through the year and show the people behind your power every day.

Bluefish Dam Replacement

A new lease on life

The Bluefish Dam has played a big part in Yellowknife's successful history. Con Mine began construction on the dam in 1940 to provide power for its gold mine, and for the growing town of Yellowknife. The first power was generated in 1942. The original dam was built using rock and timber. A dam of this type is usually expected to last for up to 40 years. However, the dam's life was extended through three major upgrades in 1973, 1983 and 2007.

Bluefish Dam generates up to 7.5 megawatts of power — up to 20 percent of Yellowknife's electricity. Water is free, and it replaces 11 million litres of diesel fuel that would otherwise have to be purchased each year to generate the same amount of power. NTPC purchased the Bluefish Dam from

Miramar Con Mine in 2002 and it has paid for itself many times since then.

Even with regular maintenance and safety reviews, at nearly 70 years old Bluefish is nearing the end of its life. Part of its maintenance included regular safety reviews. A 2005 dam safety review recommended that NTPC replace the dam and we began making plans. But in 2008, higher than normal flows in the Yellowknife River became a concern when it was discovered that a leak had formed on the left side of the dam that could cause it to fail. Emergency repairs were completed and NTPC immediately began planning a replacement dam.

Since then, NTPC has been working through environmental, geotechnical, construction and engineering studies and consulted with communities to move the construction timetable forward as fast as allowed under current legislation.

In order to prepare for the project, NTPC had to mobilize and set up the following support infrastructure items:

- a 50-person camp with approved sewage system;
- an office trailer and first aid trailers;
- fuel and fuel tanks;



- a front-end loader and a gravel truck;
- poles, conductors and transformers to provide electrical service to the camp; and
- materials (gravel, concrete aggregate).

By November 2010, the construction contract was awarded to North America Construction (1993) Ltd., and preparations began immediately to move equipment and materials to site on the winter road. By March 2011, the contractor had moved equipment and materials in place for the job, including:

- 3 excavators;
- 3 articulated haul trucks;
- 2 loaders and a bulldozer;
- drills and grouting equipment;
- complete crushing and concrete batching equipment;
- 4 crew pick ups; and
- light towers, welders, pumps and other utility equipment and material.





Mark Horton

**Certified Engineering Technologist,
Project Monitor for Bluefish Project**

As a member of the project team for the Bluefish Dam replacement project since November 2010, Mark Horton has seen the Bluefish project through regulatory approvals, site set up and its first construction season. Part of Horton's job is to manage the budget. He does this by making sure that NTPC is getting value from all services and purchases. But he never loses sight that safety and quality must be up to NTPC and industry standards. And he's committed to bringing the construction schedule in on time too. There are many conflicting priorities with an environmentally sensitive project of this magnitude, but he's up to the challenge!

NTPC also had to work through many technical sessions and hearings to obtain the Type A and B Water Licenses and Land Use Permit it needed to begin construction. The Type B Water Use Permit application was approved in February 2011. This permit allowed small crews to clear the timber and prepare access to areas to store equipment and materials in preparation for building a temporary bridge across the Yellowknife River.

By July, all permits and licenses were in place and much work has been accomplished, including:

- blasting rock within the new spillway to create fill to build a temporary bridge across the Yellowknife River;
- removing soil and vegetation down to bare rock.

By the end of the 2011 construction season, 90 percent of the spillway and bottom outlet channel was completed, and approximately 55 percent of the stainless membrane — which provides the dam's water seal — was installed.

Although work has progressed well, the 2012 construction completion date will likely be extended from August to October 2012. In order to meet construction budgets, the contractor's equipment must be removed during the 2013 ice road season.

When the dam is completed it won't look much different at its surface, but beneath the surface it will continue to power the next generation of Yellowknifers who come north to seek their fortune and fame.





Norm McBride in the Jackfish control room

Jackfish Plant

Working to keep the power on 24/7

Systems operators are on the job day and night at the Jackfish Power Plant, dedicating themselves to keeping the power on and running smoothly. During the day, systems operators keep constant connection with NTPC's five remote hydro locations, but they also keep an eye on permits for maintenance work that may be happening on a diesel or hydropower generator, power lines and substations around the NWT to ensure that power is uninterrupted.

After the day ends for most people of the NWT, including diesel plant operators, systems operators like Rob MacIntosh

take over the reins territory-wide, making sure everything runs smoothly through the night. Rob has been systems operator at the Jackfish Power Plant for five years now. He and other operators work in the control room — a small, isolated area you could think of as an airport's control tower. Not only do the room's eight computer screens oversee hydro locations around the NWT, the system also monitors power in all communities of the NWT, once the local day shift goes home.

At night, systems operators also monitor the breakers for Northland Utilities (which provides service to the communities of





Rob MacIntosh

**Systems Operator,
Jackfish Power Station**

“We work to keep the power on across the NWT. After all, our families are counting on us too.”

Yellowknife and Hay River). If a problem occurs, systems operators have the ability to reboot the breakers remotely, allowing NUL staff to quite literally sleep at night.

On a good night, there’s enough work to make his 12-hour shift fly by, but as Rob MacIntosh puts it, “You can go from 99 percent routine boredom to 100 percent high adrenaline in a heartbeat.” Unlike southern Canada, the Northwest Territories can’t draw power from nearby grids to keep the power running. So if a problem does occur, with something like lightning or wildlife hitting a power line, the adrenaline kicks in and a detailed series of emergency procedures goes into operation. “When hydro shuts down, it’s costing the Corporation — and our customers — every minute we have to run diesel backup,” says MacIntosh. “Our families are out there too, so we work as fast as we can to get power back on for everyone.”

At night, systems operators work solo. When there is an outage, customers want to know when their power will be restored. “We answer calls that come in, but it’s not just a matter of flipping the switch back on. We have to make sure it’s safe to turn the power back on first. So we don’t know exactly how long power outages will be.”

Systems operators liaise with the regions, RCMP and hospitals. And if a power outage can’t be fixed with these high-tech computer systems, Rob and other systems operators act as dispatchers, setting off a series of chains that take over and call in staff, who respond immediately.

Even on a good night system operators are busy keeping your community powered and your heat running. And if you don’t give your power a second thought as you sleep, that’s a good thing, because it means all is well in the control room.





Residual heat from this Fort Liard power plant is reducing the amount of fuel needed in the community by as much as 63,000 litres per year. Great for the community, great for the environment.

Putting Waste Heat to Good Use in Fort Liard

Did you know that when diesel and natural gas are burned to generate electricity, less than 40 percent of the energy turns into power? The remaining 60 percent of the energy produces heat, which can be recovered and delivered to provide space heating for nearby buildings. NTPC power plants have been heated using residual, or leftover, heat for some time, but now this technology is also being used to heat nearby buildings.

The Fort Liard residual heat program has connected four buildings in the community to the system: the hamlet's garage and fire hall, the hamlet's office complex and the Acho Dene School. In the future, two additional buildings — a new hamlet building and the Beaver Industries office building will also receive residual heat.

Recovering residual heat in Fort Liard means the amount of fuel transported and stored in the community can be reduced by as much as 63,000 litres per year — with the added benefit of a corresponding reduction in greenhouse gas emissions. And the power plant's centrally located heat radiators are also quieter, because they do not run as often. Fort Liard's residual heat recovery system is not the first partnership

between NTPC and a community. NTPC began developing these systems in 1994, when it partnered with the Gwich'in Development Corporation in a company called Aadrii Ltd. This residual heat system is still in operation today and is successful in reducing overall fuel requirements, and greenhouse gases.

In general, residual heat projects in the NWT are not cost-effective because of their high upfront costs and long payback period. However, these projects reduce dependency on fossil fuels and benefit the environment, which makes them worthy of consideration. Fort Liard was chosen as the first system to be developed under the GNWT Energy Priorities Investment Fund and the Fund contributed 70 percent of the \$2 million project cost to make it possible.

Studies are also underway to potentially bring residual heat to Inuvik, Fort Simpson and Ulukhaktok. NTPC will continue to work closely with the GNWT to identify potential for these projects and sources of funding.

Recovering heat that would otherwise be wasted and using it to heat government buildings is a win-win that has been going on in the North for a long time.

NTPC has been working with the GNWT to provide residual heating to government institutions like schools, water treatment facilities and government offices. Residual heat has the power to reduce community fuel consumption, and can provide economic benefits to the operator and end users. All this and we're doing something good for the environment, too!



Tim Farrell

**Specialist Engineer,
Mechanical**

“Instead of letting it escape, we're using residual heat to heat NTPC's plants and buildings in our communities. We're making a difference by reducing our use of non-renewable fossil fuels. And that means less greenhouse gases are released into our environment.”



Getting The Most Value From Our Investments



Greg Haist

Manager of Civil Engineering

Greg Haist has been with NTPC for nearly 14 years and has lived in Hay River for 30 years. He's seen a lot of changes and knows there are more to come. He appreciates that new management is thinking about asset management holistically. By planning for scheduled repairs and refurbishments, we get the most value for our investment. And we can pass the savings onto you.

Everyone knows a car won't last forever. Eventually you'll need a new one. The same is true with power generating equipment. But taking good care of your vehicle — or your power plant — by doing regular maintenance and prompt repairs, ensures you get the most out of your investment. And just like a car, when it's time to replace, it makes good financial sense to invest in a more energy-efficient and environmentally responsible model.

Inuvik Gets a New Warehouse

In the case of the warehouse in Inuvik, which was home to both warehouse and administrative staff, it was time for a replacement. Constructed on old-style woodpiles, which were rotting away, it was time for the building to be abandoned.

Planning and geotechnical preparation began in 2010 and proposals for a design/build contract were accepted by the end of March 2011. Construction began in the summer of 2011 and the building will be completed by the end of March 2012.

To reduce moving stresses and expenses, administration staff were permanently moved into

a location closer to the heart of Inuvik where customers could more easily access the services we offer.

When the new warehouse goes into use in 2012, it will be a model of energy-efficiency. It will also become a key asset for operations. And, the warehouse will house crucial equipment and critical spares for all NTPC operations throughout the Inuvik Region.

Fort Smith Roof Refurbishment

In contrast, staff in the Fort Smith office had no need to move. But the nearly 30 year old roof on the power plant was not energy efficient and ice damming and icicles threatened injury. Requests for proposals to upgrade the insulation and replace the cladding went out in 2010-11 and construction on the new roof was completed by the end of summer.

Examining our capital assets on a regular basis, repairing and refurbishing those that can be saved and extending their life expectancy, makes good business sense. It means we can avoid passing unnecessary costs onto our customers — something NTPC is always on the lookout for.



Rate Rebalancing Evens the Playing Field

The high cost of power and its impact on the cost of living in the Northwest Territories has been an issue with residents, businesses and communities for a very long time. The single largest challenge in providing reasonably priced electricity service is that each community that isn't served by hydropower needs a stand-alone diesel generated thermal power system.

If you charter a plane and only use one seat, the one passenger has to bear the whole cost of the pilot, the plane and the operating costs. But the more seats on the plane you fill, the lower the cost per person. The same is true with diesel power. Whether you need to generate power for a few

households or many households, you still need a power plant and all the costs involved in operating it.

To help overcome these challenges, our shareholder, the GNWT, completed a review of regulations, rates and subsidies of NTPC and other utilities. The May 2010 report, **Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories** made numerous recommendations to stabilize costs for all NWT communities and protect against unexpected price increases.



The end result is a zone-based system that allows NTPC to:

- reduce the number of electricity rate zones from 33 to 4;
- take advantage of larger numbers of customers in each zone; and
- reduce rates in 24 of 28 communities.

Customers in what is now called the “thermal zone” saw the greatest reduction. The thermal zone relies on diesel or natural

gas power generation, which is dependent on the fluctuations in pricing. In the table below, you see drastic reductions compared to previous community power rates.

In Colville Lake for example, a community with only 60 customers, the residential power rate is now 1/5 what it was before.

This new rate system also reduces power rates for our commercial customers. Rates in the thermal zone were reduced by anywhere from 1/3 in Aklavik to 1/5 the old rate in Colville Lake. It allows

businesses to pass savings onto their customers and NTPC is hoping to see a reduction on costs for food and other staples.

The GNWT also made changes to its Territorial Power Supply Program (TPSP) for residential customers. It now reduces the rate for the first 1000 kwh consumed in winter and 600 kwh in summer to the same price as power rates in Yellowknife.

At a time when the cost of diesel is going up in the rest of Canada, this is very good news for our customers indeed.

Power Zones and Rates

| Zone | Community | Residential | | Commercial | |
|---------------------|-------------------------------|----------------|-------------------------------|----------------|----------------|
| | | Old Rate c/kWh | New Rate c/kWh | Old Rate c/kWh | New Rate c/kWh |
| NTPC Thermal | Aklavik | 64.84 | 47.39 (22.37 with subsidy) | 61.95 | 40.20 |
| | Colville Lake | 230.26 | | 200.26 | |
| | Deline | 83.20 | | 78.50 | |
| | Fort Good Hope | 72.41 | | 63.42 | |
| | Fort Liard | 78.06 | | 70.37 | |
| | Fort McPherson | 81.59 | | 74.64 | |
| | Fort Simpson | 73.44 | | 64.34 | |
| | Gameti | 129.80 | | 149.18 | |
| | Jean Marie River | 148.70 | | 200.65 | |
| | Inuvik | 60.35 | | 53.68 | |
| | Lutsel K'e | 78.53 | | 73.03 | |
| | Nahanni Butte | 166.40 | | 214.65 | |
| | Paulatuk | 122.92 | | 116.15 | |
| | Sachs Harbour | 152.12 | | 142.58 | |
| | Tsilgehtchic | 112.71 | | 99.84 | |
| | Tuktoyaktuk | 70.80 | | 62.87 | |
| Tulita | 89.51 | 86.46 | | | |
| Ulukhaktok | 70.75 | 64.04 | | | |
| Whati | 84.57 | 78.50 | | | |
| Wrigley | 137.92 | 147.49 | | | |
| NTPC Norman Wells | Norman Wells | 39.79 | 35.70 | 35.70 | 33.66 |
| NTPC Talston | Fort Smith Fort Resolution | 16.36 | 16.36 | 18.03 | 12.88 |
| | | 20.75 | | 12.88 | |
| Taltson (Wholesale) | Hay River | 8.44 | 8.44 | n/a | n/a |
| Snare (Wholesale) | Yellowknife | 14.97 | 14.97 | n/a | n/a |
| NTPC Snare | Behchoko Dettah | 24.08 | 24.23 | 30.75 | 29.83 |
| | | 27.86 | | 34.53 | |



Trudy Nelner

Customer Service Representative

“You never know when a customer is going to make or break your day. I try to understand where they’re coming from by making a connection with each and every one of them.”



“Do We Have It?”, “Where Is It?” and “How Soon Can We Get It?”

It's Thess Cruze-Cooper's job at NTPC to know where things are — in all 28 communities NTPC serves. She keeps track of the Corporation's inventory. Most of the stock is held in the regional warehouses in Inuvik, Yellowknife and Hay River where it can be easily transported to community power plants.

When she gets a request from a power plant or a warehouse to supply an item, she first makes sure it isn't already on site. If the item is in another region, Thess weighs and balances what it will cost to get it from where it is to where it needs to go, the time it will take and how badly it is needed. “Sometimes it is something needed right away for an emergency repair, then we get it there by the quickest means possible. You can't argue with 40 below. But if it's for planned maintenance, I get it there in the most cost-effective way.”

Thess also provides warehouse staff with a yearly inventory account for each warehouse, which staff in the regional warehouses compare against the stock they manually count. If there are differences, Thess prepares

a variance report and begins her detective work. She works with local staff to sort it out.

At first it was sometimes a struggle to get the cooperation she needed to do her job well, (no one wants to count nuts and bolts, and that's why computers do the job). But now that she sees what the system is capable of doing, she's been able to pass on her enthusiasm. “I've established relationships with the people I work with, even if we haven't met face to face. We all agree that knowing what we have on hand is good for the bottom line.”

Thess also works as part of a team to help plan projects, by reviewing what is on hand and what will need to be ordered to keep the day to day supplies up to standard. She then prepares a requisition list of equipment and materials needed for a project for the purchasing team to order.

In the end, although the computer is very good at counting and crunching numbers, NTPC still looks to people like Thess to use their experience and judgement to know how much, how quickly and where from.



Thess Cruze - Cooper

Warehouse Inventory Control

“I try to make the best use of the Corporation's funds by making sure we have enough — but not too much — on hand.”

Warehouse trivia On any given day:

- there is about \$7.5 million worth of inventory in NTPC warehouses
- there are 2800 different stock codes
- there at least 21,000 bolts of different sizes in stock
- there are over 240,000 litres of diesel for generating power on hand

Julia Francis helped raise more than \$50,000 for cancer research by encouraging her colleagues to participate in "Shave for Life"



NTPC is Proud to be Part of Your Community

The Northwest Territories Power Corporation is made up of people who live and work in the communities we serve. Many of the events and organizations that we support are near and dear to the hearts of our staff. NTPC believes in giving back to our communities — not only financially, but also by encouraging staff to volunteer for the

events and activities that are important to them.

In 2010-11 NTPC's contributions totalled over \$152,000 and the Corporation contributed to 68 organizations and events around the Northwest Territories:

Sponsorships

- Arctic Challenge: Inuvik Homeless Shelter
- Canada Aboriginal Games Women's Hockey
- Canada Games Men's Hockey
- Canadian Cancer Society: Relay For Life
- Dene Nation: 40th National Assembly
- Hay River "Start Your Engines" Trade Show
- Inuvik 2011 Oil & Gas Show
- Inuvik Chamber of Commerce AGM
- NWT Association of Communities: Builders Awards
- NWT Basketball Association: Cager Tournament
- NWT Construction Association Conference
- NWT Junior Squash Tournament
- NWT Rivers Exhibit: Hay River Heritage Centre
- NWT Track and Field Championship
- South Slave Regional Hockey: Development Camp
- YWCA: Poverty Conference

Donations

- Aklavik Christmas Light Up
- Aklavik Mad Trapper Jamboree
- Alberta/NWT Cancer Foundation
- Aurora College Graduation
- Behchoko Spook-a-Rama
- Canadian National Institute for the Blind
- Charter Community of Deline
- Children First Society
- Colville Lake Behdzi Ahda First Nation
- Community Government of Gameti
- Deline First Nation
- Fort Good Hope Wood Block Music Festival
- Fort McPherson Peel River Jamboree
- Fort Simpson Open Sky Creative Society Festival
- Fort Smith Animal Society
- Fort Smith Metis Council
- Fort Smith Slow Pitch Mixed Rec League
- Fort Smith Trade Show
- Hamlet of Tulita
- Hay River Chamber of Commerce
- Hay River Elks Club
- Hay River Golf Club
- Hay River Hospital Foundation
- Hay River Junior Curling Club
- Hay River Royal Canadian Legion Wreath
- Hay River Senior's Christmas
- Hay River Youth Bowling Program
- Inuvik Aboriginal Head Start Christmas Concert
- Inuvik Curling Club
- Inuvik Muskrat Jamboree
- Inuvik Samuel Hearne Secondary School
- Inuvik Ski Club
- Local Government Association of the Northwest Territories
- Lutsel K'e Christmas Events
- Mackenzie River Recreation
- Motorcycle Ride for Dad
- Nahendeh Golf Classic
- Norman Wells Black Bear Jamboree
- NWT Chamber of Commerce
- Polar Pond Hockey Association
- PWK: Grade 8 Achievement Awards
- Sachs Harbour White Fox Jamboree
- Sir John Dry Grad
- South Slave Friendship Festival
- Town of Inuvik Light-Up Contest
- Tuktoyaktuk Beluga Jamboree
- Tuktoyaktuk Slow Pitch League
- Tulita Minor Hockey
- Tulita School District Christmas Concert
- Ulukhaktok Kingalik Jamboree
- Whati Women's Volleyball
- Yellowknife Bike Rodeo
- Yellowknife Women's Volleyball

NWT Track and Field Championships

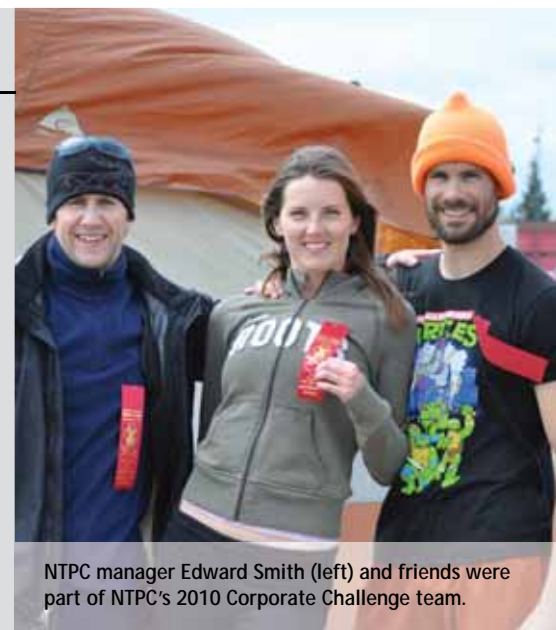
NTPC has been a proud sponsor of the annual NWT Track and Field Championships since 1993. From June 2nd to 4th 2010 more than 1200 athletes, coaches and visitors landed in the town of Hay River to run, jump, throw and cheer their hearts out.

In addition to its cash sponsorship, NTPC also provides an in-kind donation of 4 staff to help at the event. Many others also generously give their free time to this because it encourages our youth to set

goals and achieve them while showing generosity of spirit towards one and other.

Each year, a team of NTPC athletes also participates in the Corporate Challenge portion of the track meet, a fun event that always provides lots of laughter, cheers from NTPC supporters and the occasional gold medal.

Congratulations to the athletes, coaches and volunteers — we all look forward to next year!



NTPC manager Edward Smith (left) and friends were part of NTPC's 2010 Corporate Challenge team.



Long Service Awards 2010

Each year, the Northwest Territories Power Corporation recognizes staff that have been with us for more than five years. To us it means that our safe and positive workplace environment fosters a fiercely loyal staff. To our customers it means that they are met each day with respect and kindness by the familiar faces of the people who live and work in their community.

We would like to thank you and acknowledge the value you bring to NTPC and the countless ways you go beyond the expected each day to strengthen the foundation of business.

This past year we recognized the following long-term employees:

| <i>Employee</i> | <i>Title</i> | <i>Plant</i> | <i>Years of Service</i> |
|---------------------|-----------------------------------|--------------|-------------------------|
| Dies, Ken | Manager, YK System Control | Yellowknife | 30 |
| Schmidt, Robert | Director, Hydro Operations | Yellowknife | 30 |
| Willows, Brian | Chief Operating Officer | Hay River | 30 |
| Rivard, Denis | System Operator | Inuvik | 25 |
| Colton, Glenn | Supply Chain Logistics Officer | Inuvik | 20 |
| Farrell, Tim | Specialist Engineer, Mechanical | Hay River | 20 |
| James, Steve | System Operator | Yellowknife | 20 |
| Inglangasuk, Gerald | Customer Service Representative | Inuvik | 20 |
| Stainbrook, Shayne | CADD Tech | Hay River | 20 |
| Vanhull, John | System Operator | Yellowknife | 20 |
| Dasti, James | Power Lineperson | Fort Smith | 15 |
| Harrington, Pat | Secretary, Engineering | Hay River | 15 |
| Martin, Aaron | Manager, Operations & Maintenance | Yellowknife | 15 |
| Walsh, Matthew | Information Technology Consultant | Hay River | 15 |
| Alcos, Arlene | Manager, Internal Audit | Hay River | 10 |
| Deleff, Tom | A/Manager, SCADA/Telecontrol | Yellowknife | 10 |
| McPherson, Bob | Plant Superintendent | Tulita | 10 |
| Nelner, Trudy | Customer Service Representative | Fort Simpson | 10 |
| Smith, Glenn | Director, Information Technology | Hay River | 10 |
| Buchan, Corrina | Training Coordinator | Yellowknife | 5 |
| Cazon, John | Trades Helper | Fort Smith | 5 |
| Glaicar, April | Executive Assistant to President | Hay River | 5 |
| Hazenberg, Darren | Power Lineperson | Yellowknife | 5 |
| MacDonald, Allan | Power Lineperson | Fort Simpson | 5 |
| Snyder, Rick | Electrician | Yellowknife | 5 |

With so many staff serving 10 years and longer, it also means that like most North American utilities NTPC has an aging workforce that will soon need to be replaced. Our focus over the next few years will be to work on developing our workforce from within the NWT — by accessing the talented people that live here. We are committed to

work in partnership with communities to develop and support apprenticeship programs. We are also working to groom staff from within the Corporation, by providing them with ongoing training and support to allow them to move up the corporate ladder.

Board of Directors, Officers and Committees

As at March 31, 2011

| <i>Board of Directors of NTPC</i> | |
|--|--|
| Brendan Bell | Chairman |
| Peter Allen | Vice Chairman |
| Danny Yakeleya | Director |
| James Schaefer | Director |
| James Wah-Shee | Director |
| Eric Menicoche | Director |
| David Tucker | Director |
| Eddie Lavoie | Director |
| Peter Taschuk | Legal Advisor |
| Ron Threlkeld | Utility Advisor |
| <i>Officers of NTPC</i> | |
| Brendan Bell | Chairman |
| David Axford | President & Chief Executive Officer |
| Judith Goucher | Chief Financial Officer |
| Dan Roberts | Director, Engineering & Chief Engineer |
| Brian Willows | Chief Operating Officer |
| Robert Schmidt | Director, Hydro Region |
| Mike Ocko | Director, Thermal Region |
| Glenn Smith, | Director, Information Systems |
| Cheryle Donahue | Director, Human Resources |
| Cheryl Tordoff | Corporate Secretary |
| <i>Audit and Efficiency Committee</i> | |
| David Tucker | Chairman |
| James Wah-Shee | Committee Member |
| Eric Menicoche | Committee Member |
| Danny Yakeleya | Committee Member |
| <i>Governance and Compensation Committee</i> | |
| Peter Allen | Chairman |
| Brendan Bell | Committee Member |
| James Schaefer | Committee Member |
| Eddie Lavoie | Committee Member |



Corporate Governance

The following table summarizes the Northwest Territories Power Corporation's corporate governance practices as compared to the "Best Practices" of corporate governance.

| <i>Guideline</i> | <i>Comments</i> |
|---|---|
| <p>Composition of Board:</p> <p>The board should have a majority of independent directors.</p> <p>The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed as "lead director". However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.</p> | <p>The chairman and directors are all independent members of the board.</p> |
| <p>Meeting of Independent Directors</p> <p>The independent directors should hold regularly scheduled meeting at which non-independent directors and members of management are not in attendance.</p> | <p>An in-camera session is held at each board meeting.</p> |
| <p>Board Mandate</p> <p>The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for the stewardship of the issuer, including responsibility for:</p> <ul style="list-style-type: none"> a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive offices and that the CEO and other executive officers create a culture of integrity throughout the organization; b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of business; c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks; d) succession planning (including appointing, training and monitoring senior management); e) adopting a communication policy for the issuer; | <p>The board has a written mandate covering a majority of these items.</p> |

| | |
|--|---|
| <p>f) the issuer's internal control and management information systems; and,</p> <p>g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.</p> <p>The written mandate of the board should also set out:</p> <p>(i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and</p> <p>(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.</p> | |
| <p>Position Descriptions</p> <p>The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.</p> | <p>A position description exists for the CEO, the board chair and committee chairs.</p> <p>The board of directors develops and approves the CEO's goals and objectives each fiscal year.</p> |
| <p>Orientation and Continuing Education</p> <p>The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.</p> <p>The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.</p> | <p>All new board members receive an orientation.</p> <p>Board training sessions are scheduled as required and continuing education is provided as necessary; pursuant to the Board Development and Training Policy.</p> |
| <p>Code of Business Conduct & Ethics</p> <p>The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrong doing. In particular, it should address the following issues:</p> <p>(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;</p> <p>(b) protection and proper use of corporate assets and opportunities;</p> <p>(c) confidentiality of corporate information;</p> <p>(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;</p> <p>(e) compliance with laws, rules and regulations; and</p> <p>(f) reporting of any illegal or unethical behaviour.</p> | <p>The Corporation has an "Ethics and Conflict of Interest Code".</p> |

| | |
|---|--|
| <p>The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.</p> <p>Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-103 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect the material change report will disclose, among other things:</p> <ul style="list-style-type: none"> • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or had not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s). | <p>The CEO monitors employees and approves any exception to the policy. The chairman of the board monitors the CEO and approves any exception to the policy.</p> |
| <p>Nomination of Directors</p> <p>The board should appoint a nominating committee composed entirely of independent directors.</p> <p>The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure of operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.</p> | <p>All board members are involved in the identifying potential members for the board with the Minister Responsible for NTPC having overall responsibility.</p> |
| <p>The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.*</p> <p>In making recommendations, the nominating committee should consider:</p> <ol style="list-style-type: none"> (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to process; (b) the competencies and skills that the board considers each existing director to possess; and (c) the competencies and skills each new nominee will bring to the boardroom. <p>The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.</p> | <p>Guidelines have been developed to assist in identifying potential members.</p> |

| | |
|--|--|
| <p>Compensation</p> <p>The board should appoint a compensation committee composed entirely of independent directors.</p> | <p>There is governance and compensation committee of the board of directors.</p> |
| <p>The compensation committee should have a written chart that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members of sub- committees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.</p> | <p>The governance committee written mandate covers a majority of these items.</p> |
| <p>The compensation committee should be responsible for:</p> <ul style="list-style-type: none"> (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation; (b) making recommendations to the board with respect to non- CEO officers and director compensations, incentive- compensation plans and equity- based plans; and (c) reviewing executive compensation disclosure before the issuer publicly discloses this information. | <p>The governance committee recommends the CEO's annual objectives and performance evaluation, as well as compensation for senior management, for approval by the board.</p> |
| <p>Regular Board Assessments</p> <p>The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:</p> <ul style="list-style-type: none"> (a) in the case of the board or a board committee, its mandate or charter, and (b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board. | <p>An assessment of the board of directors is completed annually.</p> |



Management Discussion and Analysis

The following discussion and analysis is intended to provide a historical and prospective analysis of the Corporation, with 2010-11 financial performance as the primary focus. Management assumes full responsibility for the information provided in this discussion and analysis and confirms that appropriate information systems, procedures and controls are in place to ensure that the information provided is both complete and reliable. These comments should be read in conjunction with the 2010-11 Consolidated Financial Statements included in this report.

Description of the Corporation's Operations

The Northwest Territories Power Corporation is a subsidiary of the Northwest Territories Hydro Corporation (NT Hydro) which in turn is 100 percent owned by the Government of the Northwest Territories (GNWT). NT Hydro is also a public agency, established

under the *Northwest Territories Hydro Act* and also owns, in addition to NTPC, NWT Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL).

NTPC operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC is established under the *Northwest Territories Power Corporation Act* and has two wholly owned subsidiaries, the NWT Energy Corporation Ltd. (NTEC) and 5383 NWT Limited. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 megawatt hydro facility. NTEC is also responsible for the operation, management and shared ownership (50 percent) of one residual heat project in Fort McPherson. 5383 NWT Ltd. is an inactive company. The Northwest Territories Public Utilities Board (PUB) regulates NTPC activities.

In 2010-11, the Board of NT Hydro set objectives and strategies for NTPC to be efficient and effective while maintaining or improving reliability, delivering quality customer service, operating safely and protecting the environment.

Full-service Utility

NTPC distributes electricity to the end use consumers in 26 of the 33 communities in the NWT, and supplies electricity on a wholesale basis to 2 distributing utilities, which in turn retail electricity to customers in Yellowknife and the Hay River Area. The Corporation's facilities include hydroelectric, diesel and natural gas generation plants, transmission systems, and numerous isolated electrical distribution systems. The Corporation also owns and operates alternative energy assets used for the supply of residual heat, solar power and co-generation.

The map below illustrates the operating area of the Corporation, a land area that rivals the largest province in Canada. The detailed map highlights the isolation of many of the communities that we serve – some accessible only by air, barge or winter road. The population is divided among the communities, 27 of which have a population less than 1,000, 5 communities have more than 1,000 persons and 1 community has a population of approximately 20,000.

Total electrical load is approximately 68 megawatts with isolated power systems having generating capacities ranging from 65 megawatts at Snare/ Yellowknife to 230 kilowatts at Jean Marie River and Nahanni Butte. With the exception of the two small hydro grids, these systems are unconnected and each must be planned for and operated independently.

NTPC Operating Area



Environment and Safety

The Corporation continues to deliver services in an environmentally responsible manner. In 2010-11, NTPC had 16 hazardous material spills (2009-10 had 15). The total volume spilled in 2011 was 995 liters compared to 1,405 2009-10. All spills were contained and cleaned up to the satisfaction of the regulators with no further action required on behalf of the Corporation.

The Corporation's 5-year accident severity rate decreased from 10.98 lost time days per 200,000 hours in 2009-10 to zero in 2010-11. NTPC continues to work on its safety orientation program, adding an interactive teaching and testing tool, increasing emphasis on site-specific orientation and expanding our policies to include contractors. The Corporation's objective remains to be accident free and we will continue to emphasize safety in the years ahead.

Reliability, Customer Service and Energy Conservation

Under the objectives of improved reliability and quality customer service, NTPC responded to numerous challenges during the year. Overall reliability declined when compared to the prior year. The Corporation worked closely with customers to minimize impacts and prevent third party damages. For the average customer the lights were on 99.93 percent (99.96 percent in 2009-10) of the time and when the lights did go out, the average time to restore power was 22 minutes compared to the 28 minutes it took to restore power in 2009-10. Beginning in 2011-12, the Corporation has initiated a number of steps to improve reliability that will focus more strongly on the root cause of outages.

The Corporation is also focused on providing high quality customer service, education and communication. These areas are crucial when assisting customers and delivering the service our customers want and deserve. Our customer service satisfaction survey indicated an improvement in 2011 increasing from 78 percent overall satisfaction to 87 percent.

Helping customers understand their electricity bill, how they use energy and what they can do to reduce their usage were continued key areas of focus in 2010-11. The Corporation introduced a power monitor-lending program in 2008-09, which was continued throughout 2010-11. This program responded to many customers, particularly in thermal generation communities, by installing monitors to help them identify when and where they are using electricity. This program, along with energy conservation tips has helped our customers manage their energy use.

The Corporation will continue to focus on providing highly reliable services to our customers; communicate on timely basis on matters of importance to our customers; and work with customers in an effort to assist them to lower their power bills.

Cost Effective Energy

When it comes to generation source, renewable hydro electricity represents by far the greatest source of power for NWT customers. In 2010-11 hydropower held steady at 74 percent of the total power generated. The Corporation continues to work with the GNWT to implement the NWT Hydro Strategy and is looking to grow the percentage of renewable power beyond the current high level by adding mini-hydro and other renewable generation. This will continue to be a focus in 2011-12. Although more expensive than

hydro, diesel generation remains the most cost effective way to provide safe reliable power to small communities with no access to an electricity grid. The Corporation has fuel stabilization funds that track the difference between forecast fuel costs used for rate setting purposes and the actual fuel cost when the power is generated. Currently fuel riders are in place in all communities to recover fuel cost paid by the Corporation but not yet recovered from customers.

Yellowknife is served by hydro generation and rates are based on average water. Water stabilization funds and fuel stabilization funds were established in 1997.

Fuel riders were discontinued in 2010-11 as the Corporation continued to work with the GNWT and the PUB to implement the recommendations from the GNWT's report: **Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System**. The GNWT fulfilled its commitment in 2010-11 to pay down our stabilization funds by \$3M and a further \$3M contribution was received after the year.

Over the next year, work will continue to find ways to lower costs by making administrative and operating systems more efficient and through possible synergies with others involved in the NWT energy sector.

Profitability, Financial Strength and Sound Business Practices

The Corporation's return on equity for 2010-11 was 3.9 percent (2009-10 was 6 percent). The target return on regulated equity approved by the PUB was 9.25 percent. The decline in 2010-11 is primarily due to lower utility rates and the reduction in the target returns in the thermal regions. In addition to profitability, the Corporation sets a number of performance measures designed to measure differing aspects of corporate performance.

In 2010-11 performance targets were set for system reliability, efficiency, safety, human resource retention and financial results. The 2010-11 objectives and strategies were set to maximize performance in each category.

| <i>Performance Measure</i> | <i>Long Term Target</i> | <i>2010-11 Actual Results</i> | <i>2009-10 Actual Results</i> |
|--|-------------------------|-------------------------------|-------------------------------|
| Debt/equity (debt is net of sinking fund balances) | 50/50 | 61/39 | 62/38 |
| Plant efficiency | 3.60 | 3.53 | 3.54 |
| Operating Cost per kWh generated | 17 -19 cents/kWh | 21.0 cents/kWh | 20.3 cents/kWh |
| Safety – average lost workdays per 200,000 hours worked – last 5 years | 0 | 0 | 10.98 |
| System availability | 99.99 percent | 99.93 percent | 99.96 percent |
| Net staff turnover | 9.0 percent | 6.25 percent | 4.23 percent |

Meeting Our Workforce Needs

As with many utilities operating in North America, the Corporation faces continual challenges to attract and retain skilled staff in an environment of labour shortages, particularly in the trades and engineering fields. Strategies for fulfilling goals in this area are under continual review and the Corporation is looking at options such as employee development, better tools for gauging employee satisfaction and staffing from outside North America to try to address these needs.

Financial Results

Net income for 2010-11 is \$4.0 million, a decrease from 2009-10 of \$6.1 million. Revenue growth was flat in 2010-11 and did not keep pace with increased operating and interest costs.

The Corporation had electricity sales of \$81.7 million in 2010-11, up marginally from \$81.5 million in 2009-10. Sales to our wholesale customers were approximately 6 percent higher (\$1.6 million) than 2009-10. Sales to our residential and commercial customers were down 6 percent (or \$1.8 million) from 2009-10. Industrial and streetlight revenue growth accounted for the remaining net increase in revenue.

Operating expenses for 2010-11 were up \$1.7 million from 2009-10 (2.6 percent). This is in line with growth in expenses for the past 2 years however with marginal declines in sales revenue, net income was negatively affected by the increase in expenses.

Interest expense in 2010-11 was approximately \$0.3 million higher than 2009-10. The Corporation issued a \$50 million, 5.16 percent debenture in 2010-11, resulting in increased interest expense of approximately \$1.4 million. Very strong performance in our sinking funds offset most of this increase.

Financing Activities

The capital programs from 2008-09 through 2009-10 were all substantially funded with short-term debt. In 2010-11, the short-term debt was repaid from the proceeds of a \$50 million, 5.16 percent debenture.

Capital Expenditures

Each year the Corporation makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. Our capital investment levels in 2010-11 were similar to the previous year (approximately \$21.9 million in 2010-11 vs. \$21.8 million in 2009-10). The majority of projects were to maintain or improve reliability. The Corporation will continue to increase capital expenditures for 2011-12 and will continue its capital project to replace the Bluefish hydro dam.

The Bluefish dam expenditures in 2009-10 were related to the completion of the regulatory process and engineering design. The 2010-11 expenditures were for mobilization of equipment and materials for the summer construction season. The new dam will be located downstream from the existing dam and will be constructed while the current dam continues to operate and provide

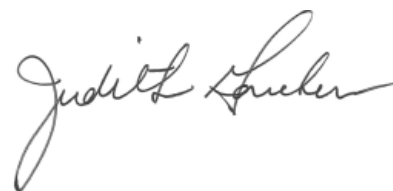
hydropower to the Yellowknife area. NTPC will assign all resources necessary to meet an aggressive timeline for the replacement of the Bluefish hydro dam, which is approximately 70 years old and has reached the end of its useful life.

Outlook for 2011-12

Although the economy in other parts of Canada is showing signs of recovery, the Corporation is not expecting significant relief in the cost of labour, materials, equipment or supplies. We face the challenge of attracting and retaining skilled labour, and transportation costs continue to place upward pressure on commodities, resulting in expenses that are outpacing inflation.

Fiscal 2011-2012 will be the first full year under the new rate structure. The new rate structure will reduce revenue by over \$1 million compared to fiscal 2010-11 and should be partially offset by modest increases in sales volumes. We also expect costs to continue to escalate. Our expected net income for 2011-12 is approximately \$2.4 million. This is significantly lower than any recent year's performance. In order to meet this target the Corporation will need to focus on system reliability, operational efficiency and overall cost controls through sound financial management.

Respectfully submitted,



Director, Finance and CFO



Financial Information

Auditor's Report
Consolidated Financial Statements
Consolidated Financial Summary

As at March 31, 2011



INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Power Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Northwest Territories Power Corporation and its subsidiaries, which comprise the consolidated balance sheet as at 31 March 2011, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of shareholder's equity and consolidated statement of cash flow 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 generally accepted accounting principles, 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

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Northwest Territories Power Corporation and its subsidiaries as at 31 March 2011, and the results of their operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of the Northwest Territories, I report that, in my opinion, Canadian generally accepted accounting principles have been applied, after giving retrospective effect to the accounting changes as described in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Northwest Territories Power Corporation and its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Northwest Territories Power Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of the Northwest Territories and regulations, the *Northwest Territories Power Corporation Act* and regulations, the *Public Utilities Act* and the by-laws of the Northwest Territories Power Corporation and its wholly-owned subsidiaries.

Terrance DeJong, CA
Assistant Auditor General
for the Interim Auditor General of Canada

21 September 2011
Edmonton, Canada

CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST TERRITORIES POWER CORPORATION

Management's Responsibility for Financial Reporting

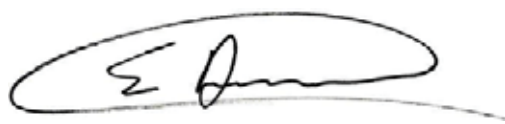
The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where GAAP permits alternative accounting methods, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories Power Corporation (NTPC) undertakes activities that are regulated by the Public Utilities Board of the Northwest Territories, which also examines and approves its accounting policies and practices with respect to recovery of assets and expenses. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

NTPC maintains financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, that assets are acquired economically, are used to further NTPC's objectives, are protected from loss or unauthorized use and that NTPC acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting NTPC's affairs in accordance with the requirements of applicable laws and sound business principles, and for maintaining standards of conduct that are appropriate to an Agent of the territorial government. An internal auditor reviews the operation of financial and management systems to promote compliance and to identify changing requirements or needed improvements.

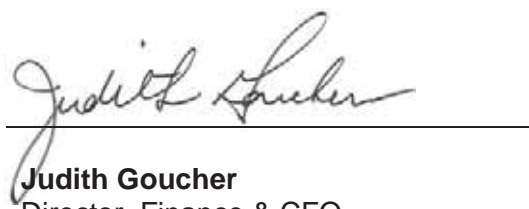
The Auditor General of Canada provides an independent, objective audit for the purpose of expressing his opinion on the consolidated financial statements. He also considers whether the transactions that come to his notice in the course of the audit are, in all significant respects, in accordance with the specified legislation.

The Board of Directors appoints certain members to serve on the Audit and Efficiency Committee. This Committee oversees management's responsibilities for financial reporting and reviews and recommends approval of the consolidated financial statements. The internal and external auditors have full and free access to the Audit and Efficiency Committee.

The consolidated financial statements have been approved by the Board of Directors.



Emanuel DaRosa
Acting President & CEO



Judith Goucher
Director, Finance & CFO

Hay River, NT
September 21, 2011

NORTHWEST TERRITORIES POWER CORPORATION

Consolidated Balance Sheet As at March 31 (\$000's) 2010

| | 2011 | (restated – note 2) |
|--|-------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 2,563 | \$ 1,694 |
| Accounts receivable (Note 6) | 14,199 | 16,185 |
| Net receivable from related parties (Note 28) | 4,817 | 6,995 |
| Inventories (Note 7) | 4,428 | 4,148 |
| Prepaid expenses | 2,802 | 700 |
| Current portion of sinking fund investments (Note 9) | 15,000 | - |
| | <u>43,809</u> | <u>29,722</u> |
| Property, plant and equipment, net (Note 8) | 289,078 | 274,800 |
| Other non-current assets | | |
| Sinking fund investments (Notes 9, 14) | 23,726 | 34,368 |
| Intangible assets (Note 10) | 1,268 | 1,457 |
| Regulatory assets (Note 4) | 16,226 | 20,530 |
| Receivable from NTEC(03) for Taltson studies (Notes 11, 28) | 3,741 | 3,741 |
| | <u>44,961</u> | <u>60,096</u> |
| | <u>\$ 377,848</u> | <u>\$ 364,618</u> |
| Liabilities and Shareholder's Equity | | |
| Current liabilities | | |
| Short-term debt (Note 12) | \$ 1,316 | \$ 38,647 |
| Accounts payable, accrued liabilities and derivatives (Note 13) | 17,805 | 17,210 |
| Dividends payable (Notes 25, 27) | 29 | 3,516 |
| Current portion of long-term debt (Note 14) | 16,316 | 1,255 |
| | <u>35,466</u> | <u>60,628</u> |
| Long-term debt | | |
| Long-term debt, net of sinking fund investments (Note 14) | 146,783 | 117,633 |
| Sinking fund investments presented as assets (Note 9) | 38,726 | 34,368 |
| Net lease obligation (Note 15) | 1,811 | 1,652 |
| | <u>187,320</u> | <u>153,653</u> |
| Other non-current liabilities | | |
| Regulatory liabilities (Note 4) | 40,501 | 38,855 |
| Asset retirement obligations (Note 16, 17) | 4,674 | 4,806 |
| Deferred government contributions (Note 18) | 2,103 | 582 |
| Employee future benefits (Note 19) | 2,120 | 3,223 |
| | <u>49,398</u> | <u>47,466</u> |
| Shareholder's equity | 105,664 | 102,871 |
| | <u>\$ 377,848</u> | <u>\$ 364,618</u> |
| Commitments and contingencies (Note 26) | | |

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

Approved on behalf of the Board:


Brendan Bell, Chairman of the Board


David Tucker, Director

NORTHWEST TERRITORIES POWER CORPORATION

Consolidated Statement of Operations For the year ended March 31 (\$000's)

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Revenues | | |
| Sale of power | \$ 81,676 | \$ 81,535 |
| Other revenues (Note 20) | 1,175 | 1,355 |
| | <u>82,851</u> | <u>82,890</u> |
| Expenses | | |
| Salaries and wages | 21,147 | 19,851 |
| Fuels and lubricants | 18,852 | 19,054 |
| Amortization (Note 21) | 14,719 | 14,145 |
| Supplies and services | 13,229 | 13,429 |
| Travel and accommodation | 2,229 | 2,145 |
| | <u>70,176</u> | <u>68,624</u> |
| Earnings from operations | 12,675 | 14,266 |
| Insurance proceeds (Note 22) | - | 1,296 |
| Insurance expenses (Note 22) | - | 1,296 |
| | - | - |
| Interest income | <u>275</u> | <u>478</u> |
| Earnings before interest expense | 12,950 | 14,744 |
| Interest expense (Note 23) | <u>9,003</u> | <u>8,854</u> |
| Income before fuel rider and government assistance | 3,947 | 5,890 |
| Fuel rider revenues (Note 4) | 9,838 | 4,918 |
| Offsetting fuel rider expenses (Note 4) | <u>9,814</u> | <u>4,881</u> |
| | 24 | 37 |
| Government assistance (Note 24) | 48 | 153 |
| Net income | <u>\$ 4,019</u> | <u>\$ 6,080</u> |

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

NORTHWEST TERRITORIES POWER CORPORATION

Consolidated Statement of Comprehensive Income For the year ended March 31 (\$000's)

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Net income | \$ 4,019 | \$ 6,080 |
| Other comprehensive income | | |
| Reclassification adjustment for realized gains on sale of financial assets included in net income | (1,798) | (495) |
| Unrealized gains on available-for-sale financial assets arising during the year | 1,397 | 2,542 |
| Other comprehensive (loss) income | (401) | 2,047 |
| Comprehensive income | <u>\$ 3,618</u> | <u>\$ 8,127</u> |

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

Consolidated Statement of Shareholder's Equity For the year ended March 31 (\$000's)

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Share capital (Note 25) | \$ 43,129 | \$ 43,129 |
| Retained earnings | | |
| Retained earnings at beginning of year | 58,820 | 57,040 |
| Net income | 4,019 | 6,080 |
| Dividends declared (Note 25) | (825) | (4,300) |
| Retained earnings at end of year | <u>\$ 62,014</u> | <u>\$ 58,820</u> |
| Accumulated other comprehensive income | | |
| Accumulated other comprehensive income (loss) at beginning of year | \$ 922 | \$ (1,125) |
| Other comprehensive (loss) income | (401) | 2,047 |
| Accumulated other comprehensive income at end of year | <u>\$ 521</u> | <u>\$ 922</u> |
| Shareholder's equity at end of year | <u>\$ 105,664</u> | <u>\$ 102,871</u> |

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

NORTHWEST TERRITORIES POWER CORPORATION

Consolidated Statement of Cash Flow For the year ended March 31 (\$000's)

| | 2011 | 2010 |
|--|-----------------|-----------------|
| Operating activities: | | |
| Cash receipts from customers | \$ 91,900 | \$ 94,691 |
| Government assistance | 3,070 | 83 |
| Cash paid to suppliers and employees | (67,416) | (66,473) |
| Interest received | 275 | 374 |
| Interest paid | (12,429) | (10,723) |
| Cash flows provided by operating activities | <u>15,400</u> | <u>17,952</u> |
| Investing activities: | | |
| Net advances from (to) related parties | 2,179 | (287) |
| Property, plant and equipment constructed or purchased | (21,915) | (21,757) |
| Cash flows used in investing activities | <u>(19,736)</u> | <u>(22,044)</u> |
| Financing activities: | | |
| Net proceeds (repayments) from short-term debt | (37,332) | 9,291 |
| Dividend paid | (4,312) | (4,664) |
| Sinking fund instalments | (2,961) | (3,872) |
| Repayment of long-term debt | (1,295) | (1,195) |
| Government contributions (Note 18) | 1,195 | 787 |
| Receipts from net lease obligation | 159 | 112 |
| Proceeds from issue of long-term debt (net of issue costs) | 49,751 | - |
| Cash flows provided by financing activities | <u>5,205</u> | <u>459</u> |
| Net (decrease) increase in cash | 869 | (3,633) |
| Cash at beginning of year | <u>1,694</u> | <u>5,327</u> |
| Cash at end of year | <u>\$ 2,563</u> | <u>\$ 1,694</u> |

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

1. Authority and operation

In fiscal 2008 the Northwest Territories Power Corporation (NTPC) went through a corporate restructuring and a new parent company, the Northwest Territories Hydro Corporation (NT Hydro) was established in 2007 under the *Northwest Territories Hydro Corporation Act*. The new structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the Government of the Northwest Territories' (GNWT) investment in NTPC. The restructuring also involved the transfer of two subsidiaries, the Northwest Territories Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL) from NTPC to NT Hydro. The assets and liabilities of both NTEC(03) and SEL were transferred from NTPC to NT Hydro, a related party, at their respective carrying values as there was no substantive change in ownership.

NTPC is established under the *Northwest Territories Power Corporation Act*. NTPC is a public agency under Schedule B of the *Financial Administration Act* and is exempt from income tax. NT Hydro is the parent company and holds all of the common shares of NTPC. The GNWT owns one preferred share of NTPC.

NTPC operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC controls two wholly-owned subsidiaries, the Northwest Territories Energy Corporation Ltd. (NTEC) and 5383 NWT Ltd. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility. NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson. See additional disclosure in Note 29. 5383 NWT Ltd. is an inactive company.

Consolidation

The consolidated financial statements include the accounts of NTPC and its wholly-owned subsidiaries NTEC and 5383 NWT Ltd. NTPC and its subsidiaries account for interests in jointly controlled entities using the proportionate consolidation method. All intercompany transactions and balances are eliminated upon consolidation.

2. Accounting changes

During the year, the Corporation changed the basis of measurement of its environmental liabilities. The Corporation now discounts the environmental liabilities for the time-value of money and judges that the new accounting policy is preferable because it results in a more accurate estimate of the costs. The Corporation now groups environmental liabilities with the asset retirement obligations on the balance sheet since the two amounts are accounted for using the same measurement basis. In addition, previously recognized estimates of environmental liabilities have been adjusted to no longer consider potentially recoverable amounts from the Federal Government. During the year, the Corporation determined that it was not appropriate to estimate this liability on a net basis.

Note 2. Accounting changes (continued)

An excess provision for soil remediation costs has also been removed from the calculation of the asset retirement obligations.

The combined effect of these accounting changes has been applied retroactively and the comparative balances have been restated. The combined effect of these changes was to increase the asset retirement obligations by \$4,548 (2010 – increase by \$6,124) before giving effect to the time-value of money. The combined effect after discounting was to decrease asset retirement obligations by \$2,919 (2010- decrease by \$2,782) and to increase the regulatory liabilities – reserve for future removal and site restoration by \$2,919 (2010 – increase by \$2,782). There was no impact on the statement of operations or shareholder's equity as a result of these changes. Refer to notes 16 and 17 for further details on the asset retirement obligations and environmental liabilities.

3. Significant accounting policies and future accounting changes

(a) Accounting Policies

These consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Rate regulation

NTPC is regulated by the PUB pursuant to the *Public Utilities Act*. The PUB regulates matters covering rates, financing, accounting, construction, operation and service area. As the PUB is a board appointed by the GNWT, and NTPC is a public agency of the GNWT, NTPC and the PUB are related parties. Although the PUB and NTPC are related parties, the GNWT only provides administrative guidance to the PUB and does not give specific direction to the PUB on a case before them.

The PUB is required by the *Public Utilities Act* to review the affairs, earnings and accounts of NTPC a minimum of every three years. The last review was done in fiscal 2009. The regulatory hearing process used to establish or change rates typically begins when NTPC makes a General Rate Application (GRA) for its proposed electricity rate changes. Normally, NTPC applies for rates in advance of the applicable fiscal years (Test Years) to which the new rates will apply. In addition to GRAs, interim applications may be used between GRAs to deal with circumstances which could result in the use of interim rates or riders until the next rate application, when rates are reviewed and set as final.

The PUB uses cost of service regulation to regulate NTPC's earnings on a rate of return basis. In the 2006/08 GRA, the PUB approved a target rate of return of 9.25% for 2007/08. The allowed rate of return will be reassessed at the time of the next GRA. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

Note 3. Significant accounting policies and future accounting changes (continued)

Revenues

All revenues for energy sales, including wholesale power, are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power include an accrual for electricity sales not yet billed. Interest, contract, contribution and other revenues are recognized on the accrual basis.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded at original cost less accumulated amortization and unamortized contributions by utility customers to aid in the construction and acquisition of property, plant and equipment. Costs include materials, direct labour and a proportionate share of directly attributable overhead costs.

Certain regulated property, plant and equipment additions are made with the assistance of cash contributions from customers when the estimated revenue is less than the cost of providing service. These contributions are amortized on the same basis as the assets to which they relate and offset against amortization expense. NTPC retains ownership of these assets.

As a result of using the average group useful life method of accounting for amortization, when an asset is retired or disposed of, the retirement of these assets is charged to the accumulated amortization with no gains or losses reflected in operations. Gains or losses arising from exceptional circumstances are included in earnings.

NTPC evaluates its tangible and intangible assets for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Note 3. Significant accounting policies and future accounting changes (continued)

Amortization

Amortization of property, plant and equipment is taken on the straight-line average group useful life basis, at rates which are approved by the PUB, a portion of which is accounted for as a reserve for future removal and site restoration costs (Note 4). Amortization is suspended when assets are removed from service for an extended period of time. Assets held for future use are not amortized until these assets are placed into service, at which time they are reallocated to the appropriate asset group and amortized according to the amortization rates for that group.

The reserve for future removal and site restoration account will be applied to mitigate the impact of asset dismantling and disposal costs and site restoration costs that are not otherwise related to an asset retirement obligation and environmental liabilities as described in Note 4.

Amortization rates are as follows:

| | <u>%</u> |
|---|-------------|
| Electric power plants | 1.16 - 5.25 |
| Transmission and distribution systems | 1.09 - 4.66 |
| Electric power plant under capital lease | 1.16 - 1.54 |
| Warehouse, equipment, motor vehicles and general facilities | 1.76 - 9.76 |
| Other utility assets | 2.50 - 20.0 |
| Other | 20.0 |

Amortization of intangible assets is taken on the straight-line average group life basis at an annual rate of 9.76%.

Amortization rates are reviewed by the Corporation and by the Public Utility Board (PUB) every three years as required by legislation. The Corporation uses amortization studies and other information and/or testimony to substantiate amortization rate changes. The PUB can direct amortization rate changes and these changes are done on a prospective basis. Cumulative excess or deficient amortization calculated at the time of the review is recognized over a period as prescribed by the PUB. The last general rate application was in the 2008 fiscal year and the last amortization study was in fiscal 2002. The next general rate application is planned in fiscal 2013 and the Corporation is undertaking an amortization study in fiscal 2012.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories.

Note 3. Significant accounting policies and future accounting changes (continued)

Public Service Pension Plan

Employees participate in the Public Service Pension Plan (the Plan) administered by the Government of Canada. Employer contributions to the Plan are expressed as a factor of employees' contributions. The factor may fluctuate from year to year depending on the experience of the Plan. Employer contributions are charged to operations on a current basis and represent the total pension obligations. There is no requirement to make contributions with respect to actuarial deficiencies of the Plan.

Employee future benefits

Under the terms and conditions of employment, employees may earn non-pension benefits for resignation, retirement and ultimate removal costs based on employee start dates, years of service, final salary and point of hire. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service. The cost of the benefits reflects management's best estimates using expected compensation levels and employee leave credits. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

Asset retirement obligations

On an annual basis, NTPC identifies legal obligations associated with the retirement of its property, plant and equipment. The fair value of the future expenditures required to settle the legal obligations are recognized to the extent that they are reasonably estimable and are calculated based on the estimated future cash flows necessary to discharge the legal obligations and discounted using NTPC's credit-adjusted risk-free rate.

The fair value of the estimated asset retirement obligations is recorded as a liability under other non-current liabilities with an offsetting charge recorded against the regulatory liabilities – reserve for future removal and site restoration as described in Note 4. The liability for asset retirement obligations is increased annually for the passage of time by calculating accretion (interest) on the liability using NTPC's credit-adjusted risk-free rate.

NTPC has identified some asset retirement obligations for its hydro, thermal transmission and distribution assets where NTPC expects to maintain and operate these assets indefinitely. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations for these assets cannot be made at this time.

Environmental liabilities

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. NTPC recognizes environmental liabilities when it is obligated or likely to be obligated to incur such costs and the costs of remediation can be reasonably estimated. Environmental liabilities are discounted for the time value of money and included in asset retirement obligations. NTPC reviews its estimates of future environmental liabilities on an on-going basis.

Note 3. Significant accounting policies and future accounting changes (continued)

Government contributions

The contributions approved for purchasing property, plant and equipment are recognized as a deferred capital contribution. Some of the contributions stemming from contribution agreements with the GNWT are repayable to the GNWT when the property, plant and equipment go into service. Contributions stemming from contribution agreements with the Federal Government are not repayable and are amortized into income on the same basis as the amortization of the related property, plant and equipment.

Restricted GNWT contributions for repayment of stabilization funds are recorded as a credit to the stabilization funds. The related revenue is included in fuel rider revenues and offsetting fuel rider expenses.

All other contributions are recognized as revenue in the year the contributions are spent.

Measurement uncertainty

To prepare these financial statements in accordance with GAAP management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities and the cost to complete capital projects in progress. Actual results may differ from these estimates. Significant estimates include amortization of assets, employee future benefits, fair values of financial instruments, regulatory assets and liabilities, asset retirement obligations and environmental liabilities.

Management's estimates and assumptions regarding regulatory assets and liabilities, and the timing of NTPC's ability to recover the cost of these assets through future rates, are subject to decisions of the PUB as described in Note 4.

Financial instruments

The financial instruments of the Corporation include financial assets classified as held for trading, available-for-sale, loans and receivables or held-to-maturity and financial liabilities classified as held for trading or other financial liabilities.

Held for trading

A financial instrument that is acquired or incurred principally for the purpose of selling or repurchasing it in the near term is required to be classified as held for trading. NTPC classifies cash, short-term debt, derivatives and embedded derivatives as held for trading. These items are recorded at their fair value with gains and losses recorded in interest expense.

Note 3. Significant accounting policies and future accounting changes (continued)

Available-for-sale

Assets that are not actively traded, but may still be sold as a result of changes in market conditions or for liquidity purposes are classified as available-for-sale. NTPC classifies its equity investments as well as its fixed-income investments as available-for-sale. These assets are recorded at fair value with any unrealized gains and losses recorded in other comprehensive income. As gains and losses are realized they are recorded in sinking fund income offset against interest expense (refer to Note 23).

Loans and receivables

Financial assets that are not actively traded are required to be classified as loans and receivables and accounted for at amortized cost using the effective interest rate method. NTPC classifies its accounts receivable as loans and receivables. These items are recorded at amortized cost using the effective interest rate method. Due to the short-term nature of receivables, their carrying value approximates their fair value.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets, other than those assets that meet the definition of loans and receivables, with fixed or determinable payments and a fixed maturity, which an entity has the positive intention and ability to hold to maturity. These assets are recorded at amortized cost using the effective interest rate method. As gains and losses are realized they are recorded in interest income.

Other financial liabilities

NTPC classifies its long-term debt, net lease obligation and accounts payable as other financial liabilities, which are accounted for at amortized cost using the effective interest rate method. Due to the short-term nature of accounts payable, their carrying value approximates their fair value.

Other policy decisions:

NTPC recognizes its regular-way purchases or sales (those which require actual delivery of financial assets or financial liabilities) on the trade date.

Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. Transactions costs for held for trading assets or liabilities are expensed as incurred.

Hedging relationships and derivative financial instruments

NTPC may enter into interest rate and commodity swaps to reduce its exposure to fluctuations in interest rates and commodity prices. NTPC does not enter into any derivative financial instruments for speculative purposes. As NTPC does not account for these contracts using hedge accounting, these instruments are measured at fair value with changes in fair value recognized under rate regulated accounting in the rate stabilization funds described in Note 4.

Note 3. Significant accounting policies and future accounting changes (continued)

(b) Future accounting changes

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed that the transition to International Financial Reporting Standards (IFRS) from Canadian GAAP will be required for publicly accountable entities for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for fiscal periods beginning on or after January 1, 2010. In July 2010 the AcSB proposed (and subsequently approved) a one year implementation deferral for rate-regulated entities. As such, NTPC will be required to issue its first IFRS financial statements in its fiscal year ending March 31, 2013 with comparative figures for the year ending March 31, 2012.

NTPC's conversion project is on-going in determining the key accounting differences between Canadian GAAP and IFRS as well as finalizing and implementing changes in policies and procedures throughout the Corporation to comply with IFRS.

4. Financial statement effects of rate regulation

As a result of rate regulation, the regulatory accounting policies adopted by NTPC differ from the accounting policies typically followed by unregulated entities. Specifically, policies in relation to regulatory assets and liabilities and amortization policies are different. A description and summary of the financial statement effects of rate regulation follows. The PUB has approved the accounting treatments described below.

Regulatory assets and liabilities

Regulatory assets and liabilities in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, NTPC defers certain costs or revenues as assets or liabilities on the consolidated balance sheet and records them as expenses or revenues in the consolidated statement of operations in order to match these expenses and revenues against the amounts collected or refunded through future customer rates. Any adjustments to these deferred amounts are recognized in net income in the period that the PUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. These liabilities reduce the future rate impact of disposal and remediation costs to customers.

Regulatory assets

| | <u>2011</u> | <u>2010</u> | <u>Remaining recovery period</u> |
|------------------------------------|------------------|------------------|--------------------------------------|
| Rate stabilization funds | \$ 3,685 | \$ 10,131 | Determined by PUB |
| Regulated employee future benefits | 3,787 | 3,602 | Determined by PUB |
| Reserve for injuries and damages | 2,861 | 2,590 | Determined by PUB |
| Normalized overhaul costs | 3,584 | 1,889 | Determined by PUB |
| Water licensing deferral account | 1,397 | 1,083 | Determined by PUB |
| Regulatory costs | 515 | 916 | Determined by PUB |
| Other regulatory assets | 397 | 317 | Determined by PUB |
| Snare Cascades deferral account | - | 2 | Determined by PUB |
| | <u>\$ 16,226</u> | <u>\$ 20,530</u> | |

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

Note 4. Financial statement effects of rate regulation (continued)

The total decrease to net income resulting from rate regulation is as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Rate stabilization funds | \$ (6,446) | \$ (3,022) |
| Regulated employee future benefits | 185 | 438 |
| Reserve for injuries and damages | 272 | 41 |
| Normalized overhaul costs | (32) | (510) |
| Water licensing deferral account | 314 | 134 |
| Regulatory costs | (401) | (518) |
| Other regulatory assets | 80 | 117 |
| Snare Cascades deferral account | (2) | (246) |
| Reserve for future removal and site restoration | (1,172) | (576) |
| Deferred revenues | (475) | (77) |
| Equity component of AFUDC | 673 | 804 |
| Capitalized fuel | (39) | (39) |
| Net (decrease) increase in net income due to rate regulation | <u>\$ (7,043)</u> | <u>\$ (3,454)</u> |

Revenues approved by the PUB to recover deferred amounts are not reflected in the above analysis.

Rate stabilization funds

The rate stabilization funds were originally established by the PUB in fiscal 1998 through Decision 1-97 and updated through subsequent decisions. The funds mitigate the impact on utility rates from changes in diesel and natural gas fuel prices as well as fluctuations in hydro generation caused by water levels. The impact of any increases or decreases in fuel prices or hydro generation over the PUB-approved amounts is deferred. The deferred amounts are accumulated until the PUB-specified limits are reached and management's judgement deems the recovery (refund) appropriate, at which time rate-riders are applied, with PUB approval, to recover or refund the amounts necessary to bring the funds back to the approved limits. The remaining recovery period is indeterminate as the amounts deferred in the account depend on the market price of fuel and water levels on the Snare and Yellowknife river systems. Traditionally, once the PUB-specified trigger limits are reached, the recovery period of the balance of the rate stabilization fund receivable (payable) has been approximately 12 to 24 months.

In the absence of rate regulation, GAAP would require that actual fuel expenses be included in the operating results of the year in which they were incurred. In fiscal 2011 fuel expenses were deferred and consequently lower due to the differences in fuel prices of \$1,719 (2010 - \$1,394) and lower due to the volume of available water generation of \$1,487 (2010 - \$314). The decrease to the balance of the stabilization fund accounts as a result of the change in the value of the fuel derivative was \$nil (2010 - increase to the accounts of \$255). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$186 (2010 - \$160).

Note 4. Financial statement effects of rate regulation (continued)

There were four fuel stabilization fund rate riders in effect in fiscal 2011 (2010 - four). These riders collected revenues related to fuel expenses deferred in prior years. In fiscal 2011 these riders resulted in collections of \$2,853 (2010 - \$4,635) and were reported as fuel rider revenues with an offsetting and equal charge to fuel expense. The GNWT made a specified contribution of \$3,000 to pay down the stabilization funds in 2011 (2010 - \$nil) which has been reported as rider revenue with an offsetting and equal charge to fuel expense.

The PUB approved the 2007/08 GRA shortfall rider collections of \$3,900 (2010 - \$nil) and the Snare Cascades deferral account riders of \$85 (2010 - \$nil) to be applied against the rate stabilization funds.

The net effect of rate regulation on net income was a decrease of \$6,446 (2010 - \$3,022).

Regulated employee future benefits

Regulated employee future benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 19). In the absence of rate regulation, GAAP would require that the actual cost of these employee future benefits be expensed in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$185 (2010 - \$438).

Reserve for injuries and damages

The reserve for injuries and damages includes costs for uninsured and uninsurable losses and the deductible portion of insured claims. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the types and size of emergencies NTPC faces during a given year. In the 2006/08 GRA, the PUB approved \$670 to be included in annual expenses for this fund. In fiscal 2011 actual costs deferred to this account totalled \$942 (2010 - \$711). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed in the year in which they were incurred. The net effect of rate regulation on net income was a decrease of \$272 (2010 - \$41).

Normalized overhaul costs

Normalized overhaul costs include costs over the life of the assets to overhaul hydro, diesel and natural gas units. In the absence of rate regulation, GAAP would require that major overhauls be capitalized in the year in which they were incurred and amortized to expense over the useful life of the asset while all other overhaul costs are expensed in the year in which they were incurred. In the absence of rate regulation, operational expenses would increase by \$1,226 (2010 - \$835) and annual amortization expense would increase by \$435 (2010 - \$348) as a result of an increase in the balance of property, plant and equipment of \$2,162 (2010 - \$2,136). In the 2006/08 GRA, the PUB approved \$1,693 to be included in annual expenses for this fund. The balance in the account will depend on the frequency and the cost of overhauls and therefore the recovery period is considered to be indeterminate. In fiscal 2011 actual costs deferred to this account totalled \$3,388 (2010 - \$2,971). The net effect of rate regulation on net income was a decrease of \$32 (2010 - \$510).

Note 4. Financial statement effects of rate regulation (continued)

Water licensing deferral account

The water licensing deferral account was established in PUB Decision 13-2007. This account is set up to mitigate the uncertainty around the costs to acquire and maintain water licenses associated with the Taltson hydro plant, Bluefish hydro plant and the Snare Hydro system. In the 2006/08 GRA, the PUB approved \$137 to be included in annual expenses for this fund. Costs allocated to this account in fiscal 2011 totalled \$451 (2010 - \$271). In the absence of rate regulation, GAAP would require that the cost of these events be expensed or capitalized in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$314 (2010 - \$134).

Regulatory costs

Regulatory costs include all third party costs and staff overtime, supplies, services and travel NTPC incurs directly related to general rate applications and related regulatory proceedings. In the absence of rate regulation, GAAP would require that the actual regulatory costs be expensed as they were incurred. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the actual regulatory costs NTPC incurs and this will vary from year to year as regulatory issues arise. In the 2006/08 GRA, the PUB approved \$600 to be included in annual expenses for this fund. In fiscal 2011 actual costs deferred to this account totalled \$199 (2010 - \$82). The net effect of rate regulation on net income was a decrease of \$401 (2010 - \$518).

Other regulatory assets

Other regulatory assets include costs incurred that create a long-term benefit to customers. These costs are subject to recovery from the customers through PUB decisions. In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The remaining recovery period is indeterminate as the amounts deferred to the various accounts depend on what issues arise during the year. The amortization of the various accounts to deferred charges is done on a straight-line basis over periods ranging from 5 to 10 years. Consequently, in the absence of rate regulation, operational expenses would increase by \$107 (2010 - \$153) and annual amortization expense would decrease by \$27 (2010 - \$36). The net effect of rate regulation on net income was an increase of \$80 (2010 - \$117).

Snare Cascades deferral account

The Snare Cascades deferral account eased the impact on utility rates resulting from the Snare Cascades project being added to the rate base in 1997. The increase in costs caused by the hydro project addition to the rate base, net of savings from displaced diesel generation, was deferred for five years to be amortized and collected through a rate rider over the next ten years to fiscal 2011. In the absence of rate regulation, GAAP would require that the actual cost of operations resulting from operating the Snare hydro system with the addition of Snare Cascades be expensed in the year in which the costs were incurred. The rider revenues collected in fiscal 2011 of \$24 (2010 - \$283) less an annual return and other adjustments to the balance in the account equal to \$22 (2010 - \$37) were applied against the balance in the deferral account. The effect of rate regulation on net income as a result of the net rider revenue was a decrease of \$2 (2010 - \$246).

NORTHWEST TERRITORIES POWER CORPORATION

**Notes to the Consolidated Financial Statements
For the year ended March 31, 2011
(\$000's)**

Note 4. Financial statement effects of rate regulation (continued)

Fuel rider revenues

Rider revenues with an associated fuel expense:

| | 2011 | | 2010 | |
|---------------------------------|-----------------|-------------------------|-----------------|-------------------------|
| | Rider Revenues | Associated fuel expense | Rider Revenues | Associated fuel expense |
| Rate stabilization fund riders | \$ 2,853 | \$ 2,853 | \$ 4,635 | \$ 4,635 |
| GNWT contribution | 3,000 | 3,000 | - | - |
| 07/08 shortfall rider | 3,900 | 3,900 | - | - |
| Snare Cascades deferral account | 85 | 61 | 283 | 246 |
| | <u>\$ 9,838</u> | <u>\$ 9,814</u> | <u>\$ 4,918</u> | <u>\$ 4,881</u> |

Regulatory liabilities

| | 2011 | 2010 (Restated - Note 2) | Remaining settlement period |
|---|------------------|--------------------------------|--------------------------------|
| Reserve for future removal and site restoration | \$ 36,152 | \$ 34,980 | Determined by PUB |
| Deferred revenues | 4,349 | 3,875 | Determined by PUB |
| | <u>\$ 40,501</u> | <u>\$ 38,855</u> | |

Note 4. Financial statement effects of rate regulation (continued)**Reserve for future removal and site restoration**

The reserve for future removal and site restoration is a deferral account that records the funds collected from customers for the future removal of assets and the restoration of NTPC's operating sites that are not otherwise related to an asset retirement obligation or environmental liabilities. The balance of the reserve increases annually using PUB-approved amortization rates applied over the estimated useful lives of the related assets on a straight-line average group useful life basis. Due to the long-term nature of the assumptions made in deriving these estimates, the amortization rates applied are periodically revised and updated for current information. Actual costs incurred in a given year for asset removals and site clean-up are charged to this account.

The remaining recovery period is indeterminate due to the amounts added to the fund and the amounts drawing down the balance of the fund each year. The amount by which the fund is drawn down each year depends on which assets are removed from service in that year, the cost of disposal, the site restoration projects undertaken in the year and the costs associated with those projects. The fund is built up each year based on the following rates and the balance in property, plant and equipment of those asset categories:

| | % |
|---|---------------|
| Electric power plants | 0.00 – 2.11 |
| Transmission and distribution systems | 0.00 – 1.88 |
| Electric power plant under capital lease | 0.00 – 0.26 |
| Warehouse, equipment, motor vehicles and general facilities | (0.74) – 0.35 |

In the absence of rate regulation, GAAP would require that future removal and site restoration costs would be limited to asset retirement obligations and environmental liabilities and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation or environmental liabilities and the remaining balance in the reserve would be taken into equity. In the absence of rate regulation, NTPC's fiscal 2011 expenses would have been \$798 (2010 - \$1,188) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,838 (2010 - \$1,782) higher than they would be in the absence of rate regulation.

In the absence of rate regulation, GAAP would also require the net change in the balance of asset retirement obligations (Note 16) to be booked to net income rather than to the reserve for future removal and site restoration. The net change in the reserve for future removal and site restoration account balance as a result of changes in the asset retirement obligations and environmental liabilities account balances recorded against the reserve for future removal and site restoration was an increase in the account balance of \$132 (2010 – decrease of \$18). The net effect of rate regulation on net income is a decrease of \$1,172 (2010 - \$576).

Note 4. Financial statement effects of rate regulation (continued)

Deferred revenues

Deferred revenues reflect contributions to aid in the construction and acquisition of property, plant and equipment. Deferred revenues are amortized on the same basis as the related property, plant and equipment, and the resulting credit is offset against the corresponding provision for amortization of property, plant and equipment (Note 8). In the absence of rate regulation, GAAP would require that the contributions received in a given year be recorded in revenues for that year and amortization expense would not be offset by the amortization of the deferred revenues. The remaining recovery period is indeterminate as the account is increased each year by new contributions received from customers and drawn down by the straight-line amortization of the account balance. The amortization rates for deferred revenues are the same as those found in Note 3 under Amortization. In fiscal 2011 revenues were \$951 (2010 - \$512) lower than they would have been and amortization on property, plant, and equipment was \$476 (2010 - \$435) lower than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$475 (2010 - \$77).

Gains and losses on disposal of property plant and equipment

As approved by the PUB, the gains or losses on disposal of property, plant and equipment are deferred. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

Capitalized allowance for funds used during construction

The PUB allows NTPC to capitalize an allowance for funds used during construction (AFUDC) based on the most recent PUB-approved cost of capital which is 9.674% for fiscal 2008 and future years until the next GRA. The AFUDC rate includes a component for the return on equity. In the absence of rate regulation, GAAP would require that interest during construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore, the AFUDC as recorded by NTPC is higher than it would be in a non-regulated operation, as is the subsequent amortization of the capitalized equity component. Capitalized AFUDC is recorded as an offset to interest expense (Note 23). Due to the complexities in the calculation, it is not possible to make a reasonable estimate of the carrying value of the equity component of AFUDC to determine the impact of amortization on net income.

In fiscal 2010 approximately \$673 (2010 - \$804) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB-approved cost of capital structure.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

Note 4. Financial statement effects of rate regulation (continued)

Capitalized fuel

As per PUB Decision 27-2008, NTPC capitalized fuel associated with the new intake structure capital project at the Corporation's Bluefish dam. In the absence of rate regulation, GAAP would require that fuel costs be expensed in the year incurred. There was no fuel used in fiscal 2011 (or 2010) in association with this project. Therefore fuel expense in fiscal 2011 (and 2010) was the same as it would have been in absence of rate regulation. Amortization expense was \$39 (2010 - \$39) higher than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$39 (2010 - \$39).

5. Capital management

NTPC's capital structure as at March 31, 2011 and March 31, 2010 was as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Long-term debt | \$ 203,320 | \$ 154,624 |
| Less: Sinking funds | 38,726 | 34,368 |
| Less: Unamortized premium, discount and issuance costs | 1,495 | 1,368 |
| Net long-term debt | <u>163,099</u> | <u>118,888</u> |
| Short-term debt not used to fund regulatory assets and receivables | - | 18,647 |
| Net lease obligation | 1,811 | 1,652 |
| Shareholder's equity | 105,664 | 102,871 |
| Less: AOCI | 521 | 922 |
| Adjusted shareholder's equity | <u>105,143</u> | <u>101,949</u> |
| Total capital | <u>\$ 270,053</u> | <u>\$ 241,136</u> |

NTPC's capital structure consists of its financing sources for capital projects: adjusted shareholder's equity, capital lease obligation, net long-term debt and short-term debt not used to finance regulatory assets. Short-term debt not used to fund regulatory assets and receivables is included in fiscal 2010 as the balance is a positive number. In prior years short-term debt was used mainly to finance regulatory assets and receivables and therefore was not included in the capital structure as it was a regulatory financing item. The Corporation's opportunity to earn income is based on the amount of shareholder's equity it has invested in its rate base. The amount of debt for NTPC is limited to no more than three times shareholder's equity by the *NWT Power Corporation Act*. The amount of NTPC debt is also subject to the federally imposed borrowing cap on total GNWT debt of \$500,000 under which the Corporation is required to comply. NTPC complies with these external restrictions on its debt limits.

Note 5. Capital management (continued)

NTPC's objectives with respect to managing its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and within the limitations set by the *NWT Power Corporation Act* and the debt cap limitations of the federal government on the GNWT while striving to deliver targeted financial returns as set by the PUB. The Corporation manages its capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing quarterly financial results. The Corporation has set a long-term debt capitalization target of 50/50. The debt capitalization ratio for fiscal 2011 is 61/39 (2010 – 58/42).

NTPC's capital structure is approved by the PUB as part of the Corporation's GRA process. The Corporation's long-term debt requires the approval of the GNWT and the PUB and to date has been subject to a guarantee by the GNWT. These objectives are consistent with previous years.

6. Accounts receivable

The aging of accounts receivable was:

| | 2011 | | | | 2010 |
|---------------------------------|-----------------------------------|---------------|-----------------|------------------|------------------|
| | Current (less than 28 days) | 29-90 days | Over 90 days | Total | Total |
| Utility | \$ 9,429 | \$ 843 | \$ 1,053 | \$ 11,325 | \$ 12,506 |
| Non-utility | 2,326 | 6 | 903 | 3,235 | 3,962 |
| Allowance for doubtful accounts | - | - | (361) | (361) | (283) |
| | <u>\$ 11,755</u> | <u>\$ 849</u> | <u>\$ 1,595</u> | <u>\$ 14,199</u> | <u>\$ 16,185</u> |

The changes in the allowance for doubtful accounts were as follows:

| | 2011 | 2010 |
|--------------------------------|-----------------|-----------------|
| Balance, beginning of the year | \$ (283) | \$ (248) |
| Receivables written off | 154 | 63 |
| Increase to allowance | (232) | (98) |
| Balance, end of the year | <u>\$ (361)</u> | <u>\$ (283)</u> |

Accounts receivable are reviewed for indicators of impairment. An allowance for doubtful accounts is included in accounts receivable. Additional disclosures on NTPC's exposure and management of risk associated with accounts receivable can be found in Note 28.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

7. Inventories

| | <u>2011</u> | <u>2010</u> |
|------------------------------------|-----------------|-----------------|
| Materials, supplies and lubricants | \$ 4,300 | \$ 3,990 |
| Fuel | 128 | 158 |
| | <u>\$ 4,428</u> | <u>\$ 4,148</u> |

Inventories are comprised of fuel and materials, supplies and lubricants used in the production of electricity. Production fuel inventory is only held by the Corporation in four of its operating plants. The fuel requirements for the remaining plants are all managed under the fuel management services agreement described in Note 26. Fuel held as inventory and then expensed in fiscal 2011 totalled \$1,302 (2010 - \$1,160). The supplies and services expenses reported in fiscal 2011 includes \$960 (2010 - \$835) of materials, supplies and lubricants held as inventory throughout the year. The majority of materials, supplies and lubricants are used by the Corporation to make repairs, complete overhauls or generate electricity. A minor portion of materials, supplies and lubricants is used for undertaking revenue generating projects.

8. Property, plant and equipment

| | <u>2011</u> | | <u>2010</u> | |
|--|-------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Electric power plants | \$ 221,708 | \$ (59,969) | \$ 161,739 | \$ 156,915 |
| Transmission and distribution systems | 75,906 | (19,477) | 56,429 | 55,977 |
| Electric power plant under capital lease | 26,342 | (5,946) | 20,396 | 20,801 |
| Warehouse, equipment, motor vehicles and general facilities | 35,995 | (11,919) | 24,076 | 18,915 |
| Other utility assets | 4,519 | (1,648) | 2,871 | 2,782 |
| Other | 5,864 | (4,701) | 1,163 | 722 |
| Assets held for future use | 3,197 | - | 3,197 | 2,322 |
| | <u>373,531</u> | <u>(103,660)</u> | <u>269,871</u> | <u>258,434</u> |
| Construction work in progress | 19,207 | - | 19,207 | 16,366 |
| | <u>\$ 392,738</u> | <u>\$ (103,660)</u> | <u>\$ 289,078</u> | <u>\$ 274,800</u> |

Engineering and other direct overhead expenses capitalized during the year amounted to \$1,674 (2010 - \$1,345).

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

9. Sinking fund investments

Sinking fund investments are held by the Trustee for the redemption of long-term debt. As the sinking funds exist to fund the payout of long-term debt, sinking fund income is treated as a reduction of finance charges and is reflected in interest expense (Note 23).

The sinking fund agreements require annual instalments to retire debt at maturity. Fair value information for sinking funds is included in Note 28. NTPC realized a mark-to-market return of 8.6% (2010 - 15.1%) on the general portfolio of sinking fund investments.

Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. All fixed-income securities are investment grade credit. NTPC's sinking fund policy limits investments in equities to 30% of the total sinking fund market value. Equities can be invested in two funds and are well diversified by sector, issuer, region and liquidity.

| | 2011 | | 2010 | |
|--|------------------|--|------------------|--|
| | Class value | Weighted average effective rate of return ⁽¹⁾ | Class value | Weighted average effective rate of return ⁽¹⁾ |
| Held for trading (fair value) | | | | |
| Cash and short-term investments | \$ 16,042 | .90% | \$ 1,987 | 0.23% |
| Available-for-sale (fair value) | | | | |
| Corporate bonds | 7,555 | 5.10% | 10,674 | 5.14% |
| Canadian equities | 4,125 | 19.90% | 6,475 | 50.20% |
| Federal Government guaranteed bonds | 3,665 | 3.51% | 4,155 | 3.52% |
| Provincial Government guaranteed bonds | 2,641 | 4.72% | 3,998 | 5.02% |
| Municipal Government guaranteed bonds | 1,977 | 5.42% | 3,771 | 5.67% |
| International equities | 828 | 5.50% | 1,876 | 27.20% |
| US equities | 1,893 | 11.40% | 1,432 | 21.90% |
| | <u>22,684</u> | | <u>32,381</u> | |
| Total | <u>38,726</u> | | <u>34,368</u> | |
| Less: current portion | <u>15,000</u> | | <u>-</u> | |
| | <u>\$ 23,726</u> | | <u>\$ 34,368</u> | |

¹ Equities rate is calculated based on time-weighted, mark-to-market return. All other rates calculated on market yield for cash and fixed-income securities.

10. Intangible assets

| | 2011 | | 2010 |
|---------------------|----------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Enterprise software | \$ 2,939 | \$ (1,671) | \$ 1,268 |
| | | | \$ 1,457 |

11. Receivable from NTEC(03) for Taltson studies

NTPC has contributed to hydro studies undertaken by NTEC(03) for the Taltson expansion project. This contribution bears interest at a rate of prime less fifty basis points and is recoverable from NTEC(03) or the Corporation will take possession of the studies as these studies have future benefits to NTPC and its future water license applications for the existing Taltson hydro facility. No repayment terms are specified for this contribution.

12. Short-term debt

NTPC has a \$20,000 unsecured line of credit with its bank and on a temporary basis the bank will increase the operating line. NTPC also has access on occasion to short-term funds from its shareholder, the GNWT.

| | 2011 | 2010 |
|--|----------|-----------|
| Shareholder's advance | \$ - | \$ 20,000 |
| Bankers acceptances and bank overdraft | 1,316 | 18,647 |
| | \$ 1,316 | \$ 38,647 |

The short-term debt outstanding at year-end represents short term bank overdraft (2010 - 31 day weighted average term) and a 2.84% (2010 - 1.45%) weighted average annual interest rate.

13. Accounts payable, accrued liabilities and derivatives

There were no derivatives outstanding at the end of the year. (2010 - \$nil)

In fiscal 2009 NTPC entered into two commodity swap agreements in Canadian dollars for Nymex heating oil. As the price of heating oil has a close relationship to the price of fuel the Corporation uses to generate electricity, the Corporation entered into these agreements as a means of managing the risk of price changes. NTPC has fixed the future price of approximately 65% of the fuel used for thermal generation. The first derivative was entered into on October 15, 2008 and the second derivative was entered into on November 3, 2008. Each of these derivatives was settled in three periods - at the end of the month for each of July, August and September 2009.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$'000's)

Note 13. Accounts payable, accrued liabilities and derivatives (continued)

The final settlement of these derivatives in fiscal 2010 and any change in the fair value of the derivatives for fiscal 2009 were recorded in the fuel stabilization fund accounts as reported in Note 4.

14. Long-term debt

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| 5.443% debenture, due August 1, 2028 | \$ 25,000 | \$ 25,000 |
| 5.16% amortizing debenture, due September 13, 2040 | 50,000 | - |
| 5.995% debenture, due December 15, 2034 | 25,000 | 25,000 |
| 10.75% sinking fund debentures, due May 28, 2012 | 20,000 | 20,000 |
| 6.83% amortizing debenture, due December 18, 2032 | 14,667 | 15,333 |
| 11.125% sinking fund debentures, due June 6, 2011 | 15,000 | 15,000 |
| 5% debenture, due July 11, 2025 | 15,000 | 15,000 |
| 6.33% sinking fund debentures, due October 27, 2018 | 10,000 | 10,000 |
| 8.41% sinking fund debentures, due February 27, 2026 | 8,700 | 8,700 |
| 9.11% debenture series 3, due September 1, 2026 repayable in equal monthly payments of \$73 | 7,245 | 7,467 |
| 9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69 | 6,374 | 6,579 |
| 10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70 | 6,334 | 6,545 |
| | <u>203,320</u> | <u>154,624</u> |
| Less: Unamortized premium, discount and issuance costs | 1,495 | 1,368 |
| | <u>201,825</u> | <u>153,256</u> |
| Less: Current portion | 16,316 | 1,255 |
| | <u>185,509</u> | <u>152,001</u> |
| Less: Sinking fund investments (Note 9) | 38,726 | 34,368 |
| Long-term debt, net of sinking fund investments | <u>\$ 146,783</u> | <u>\$ 117,633</u> |

Principal repayments and estimated sinking fund investment requirements for the next five years are as follows:

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Principal repayments | \$16,316 | \$22,178 | \$2,292 | \$1,530 | \$2,544 |
| Sinking fund investment contributions | \$ 1,038 | \$ 438 | \$ 438 | \$ 438 | \$ 438 |

15. Net lease obligation

NTEC loaned funds to the Dogrib Power Corporation to finance the construction of a hydroelectric generating plant on the Snare River in the Northwest Territories from 1994 to 1996. The balance of the loan receivable is \$18,756 (2010 - \$19,269). The loan bears interest at an annual rate of 9.6%, which is the average rate of interest on NTEC's long-term debt issued to finance the loan. It is due July 2026 and is repayable in equal monthly payments of \$195. The loan is secured by a charge against the plant and the lease agreement.

NTPC has an initial 65-year lease for the plant at an imputed interest rate of 9.6% from the Dogrib Power Corporation until 2061. The value of the capital lease obligation is \$20,408 (2010 - \$20,813).

To reflect the effective acquisition and financing nature of the lease, the plant is included in electric power plants in property, plant and equipment at an original cost of \$26,342.

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$1,652 (2010 - \$1,544). The current portion of the net lease obligation is a receipt of \$159 (2010 - \$108) and is recorded in accounts receivable. As a result, upon consolidation, in the early years there will be a net payment and in later years there will be a net receipt until such time as the loan receivable is fully repaid in 2026 when only the capital lease obligation payments continue until 2061.

Fair value information for the net lease obligation is included in Note 28.

The net lease obligation receipts due over the next five years are:

| 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------|-------------|-------------|-------------|-------------|
| \$159 | \$216 | \$278 | \$347 | \$423 |

Notes to the Consolidated Financial Statements
For the year ended March 31, 2011
(\$000's)

16. Asset retirement obligations

| | 2011 | 2010 (restated – Note 2) |
|--------------------------------|-----------------|--------------------------------|
| Balance, beginning of the year | \$ 4,806 | \$ 4,794 |
| Liabilities settled | (646) | (357) |
| Accretion expense | 186 | 185 |
| Valuation adjustment | 43 | 160 |
| Additions | 285 | 24 |
| Balance, end of the year | <u>\$ 4,674</u> | <u>\$ 4,806</u> |

Following is a summary of the key assumptions upon which the carrying amount of the asset retirement obligations is based:

- Total expected future cash flows - \$15,416 (2010 - \$15,903)
- Expected timing of payments of the cash flows – majority of expenditures expected to occur after fiscal 2030
- The weighted average discount rate is the credit-adjusted risk-free rate of 4.83% for those obligations identified prior to fiscal 2011 and 4.87% for those obligations identified in fiscal 2011

17. Environmental liabilities

NTPC estimates that it would cost approximately \$10,072 (2010 - \$11,638) to clean up the environmentally contaminated soil at its 27 sites in the NWT. The discounted present value of these obligations is \$1,879 (2010 - \$2,264) and is included in asset retirement obligations.

NTPC and the GNWT are jointly pursuing a claim against the Government of Canada for site contamination that occurred prior to the May 5, 1988 transfer of assets from the Northern Canada Power Commission (NCPC) to the GNWT and NTPC. Management estimates that over 75% of the contamination occurred prior to May 5, 1988 when the Government of Canada controlled NCPC. There is no provision in these financial statements for a potential recovery from the Government of Canada.

18. Deferred government contributions

In fiscal 2011 the GNWT signed two one-year capital contribution agreements with NTPC (2010 – two agreements).

The first agreement was a one-year contribution agreement to provide \$1,800 in financial assistance to continue with heat recovery projects in Ft. Liard and Inuvik. As of March 31, 2011, \$1,000 of this contribution was received from the GNWT. Total eligible project costs for the year were \$1,351. NTPC recorded \$326 in accounts receivable related to this agreement. Total project costs of \$1,642 were capitalized during the year.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

Note 18. Deferred government contributions (continued)

The second agreement was a one-year contribution agreement with NTPC to provide \$170 in financial assistance for the installation of a demonstration in-stream hydrokinetic power generation system in Ft. Simpson. As of March 31, 2011, eligible costs incurred were \$170. There is no amount owing to NTPC by the GNWT under this agreement. Total project costs of \$175 were capitalized during the year.

Total government assistance recorded for capital projects from 2009 to 2011 is \$2,103 (2010 - \$582). Amortization of this balance will commence in fiscal 2012.

19. Employee future benefits

NTPC and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the Consumer Price Index.

a) Contributions to the PSPP were as follows:

| | <u>2011</u> | <u>2010</u> |
|--------------------------|-----------------|-----------------|
| Employer's contributions | \$ 2,858 | \$ 2,270 |
| Employees' contributions | 1,222 | 1,094 |
| | <u>\$ 4,080</u> | <u>\$ 3,364</u> |

b) Liability for severance and ultimate removal benefits is as follows:

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Accrued benefit obligation, beginning of the year | \$ 3,223 | \$ 2,905 |
| Net increase in obligation for the year | 186 | 437 |
| Benefits paid during the year | (1,289) | (119) |
| Accrued benefit obligation, end of the year | <u>\$ 2,120</u> | <u>\$ 3,223</u> |

20. Other revenues

| | <u>2011</u> | <u>2010</u> |
|---------------------------|-----------------|-----------------|
| Connection fees | \$ 298 | \$ 385 |
| Contract work | 361 | 357 |
| Pole rental | 277 | 271 |
| Miscellaneous | 104 | 141 |
| Heat revenues | 135 | 167 |
| Interest on GRA shortfall | - | 34 |
| | <u>\$ 1,175</u> | <u>\$ 1,355</u> |

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

21. Amortization

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|------------------|------------------|
| Property, plant and equipment | \$ 11,797 | \$ 11,208 |
| Intangible assets | 271 | 236 |
| Regulatory and other assets (Note 4) | 3,127 | 3,136 |
| Deferred revenues (Note 4) | (476) | (435) |
| | <u>\$ 14,719</u> | <u>\$ 14,145</u> |

22. Insurance proceeds and expenses

In fiscal 2011 the Corporation recorded \$nil (2010 - \$1,296) in insurance proceeds related to a bearing failure at the Taltson hydro site. Insured costs of \$nil (2010 - \$1,296) were expensed and \$nil (2010 - \$250) of deductible and uninsurable costs were applied against the Reserve for Injuries and Damages deferral account.

23. Interest expense

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Interest on long-term debt | \$ 15,216 | \$ 13,960 |
| Short-term debt financing costs | 231 | 404 |
| Income from sinking fund | (3,161) | (2,256) |
| Income on loan receivable (Note 15) | (1,828) | (1,911) |
| Capitalized allowance for funds used during construction | (1,455) | (1,343) |
| | <u>\$ 9,003</u> | <u>\$ 8,854</u> |

24. Government assistance

NTPC has an agreement with the GNWT to provide funding assistance to offset costs incurred in its rate review program. The funding provided under this agreements in 2011 was \$48 (2010 - \$153). Funding receivable as at March 31, 2011 is \$48 (2010 - \$70).

NORTHWEST TERRITORIES POWER CORPORATION

**Notes to the Consolidated Financial Statements
For the year ended March 31, 2011
(\$000's)**

25. Share capital

| | <u>Number of shares</u> | <u>2011</u> | <u>Number of shares</u> | <u>2010</u> |
|---|---------------------------------|-------------|---------------------------------|-------------|
| Preferred shares | | | | |
| Authorized: | | | | |
| One preferred share, non-cumulative, without par value | | | | |
| <hr/> | | | | |
| Issued and outstanding: 1 preferred share (one dollar) | 1 | \$ - | 1 | \$ - |
| <hr/> | | | | |
| Common shares | | | | |
| Authorized: | | | | |
| Unlimited number of voting common shares without par value | | | | |
| <hr/> | | | | |
| Issued and outstanding: 431,288 common shares | 431,288 | \$ 43,129 | 431,288 | \$ 43,129 |
| <hr/> | | | | |

NTPC may only issue its preferred shares to the Government of the Northwest Territories.

Pursuant to Section 29 of the *Northwest Territories Power Corporation Act*, the GNWT directed the Corporation to declare a dividend of \$nil (2010 - \$3,500). NTPC declared dividends totalling \$825 (2010 - \$800) payable to NT Hydro.

26. Commitments and contingencies

Capital projects

By June 2011, the Board of Directors approved a capital plan of \$37,849 (2010 - \$21,058) which includes the costs to complete projects already in progress at March 31, 2011.

Natural gas purchase commitment

NTPC has an agreement to purchase natural gas to produce electricity in Inuvik. The minimum obligation is to purchase 5,622,900 m³ of natural gas per annum until July 2014, consistent with NTPC's operational requirements. The price is calculated annually on August 1 and will depend on the Edmonton Average Unbranded High Sulphur Diesel Price as posted in the Bloomberg Oil Buyers Guide on that date.

Fuel management services agreement

NTPC has a fuel management services agreement with the Petroleum Products Division (PPD) of the GNWT. This agreement transferred the fuel inventory and maintenance of fuel tank farms of 20 communities served by NTPC to PPD, consistent with NTPC's operational requirements. The price of fuel under this agreement changes with the change in market price, the cost of freight and the amount of fuel purchased by NTPC from PPD in a given year.

Litigation

NTPC was named as a co-defendant in a 2005 lawsuit arising out of an all-terrain vehicle accident. It is management's estimate that no significant loss to NTPC will result from this claim. In the event that the claim is not settled in favour of NTPC, NTPC has insurance which may cover all or a portion of the settlement cost.

Workplace incident

In June 2008, a contractor was working at NTPC's Snare hydro facility. An accident occurred that resulted in injury to a contractor's employee. In May 2009, NTPC was charged with 15 violations under the *NWT Safety Act*. In 2011, NTPC was ordered to develop a specified training program at a cost of up to \$100 which has been recorded in accounts payable and accrued liabilities.

NTPC is named as a co-defendant in a separate civil action brought by the contractor's employee relating to the June 2008 incident at the Snare Hydro facility. The damages claimed exceed \$1,000 plus costs. NTPC is challenging the right of the worker to bring the action before the Appeals Tribunal of the Workers' Safety & Compensation Commission. It is too early to assess any potential liability resulting from this claim.

Other

Refer to Notes 14, 17 and 18 for other commitments and contingencies disclosed elsewhere in these financial statements.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

27. Related party transactions

NTPC is a Territorial public agency and consequently is related to the GNWT and its agencies and corporations.

NTPC provides utility services to, and purchases fuel and other services from, these related parties. These transactions are in the normal course of operations and are at the same rates and terms as those with similar unrelated customers. Transactions with related parties and balances at year-end not disclosed elsewhere in these consolidated financial statements are as follows:

| | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| Transactions during the year: | | |
| Sale of power and other | \$ 20,488 | \$ 25,334 |
| Purchase of fuel from GNWT | 14,816 | 13,701 |
| Dividend paid to GNWT | 3,500 | 3,500 |
| Other purchases and payments | 3,311 | 2,067 |
| Dividend paid to NT Hydro | 812 | 1,164 |
| Fuel tax paid to GNWT | 615 | 508 |
| Balances at year-end: | | |
| Shareholder's advance (included in short-term debt) | - | 20,000 |
| Dividend payable to GNWT | - | 3,500 |
| Accounts payable to PPD | 1,274 | 1,824 |
| Accounts receivable | 1,705 | 1,493 |
| Accounts payable, accrued liabilities and derivatives | 1,287 | 2,396 |
| Dividend payable to NT Hydro | 29 | 16 |

Included in other purchases and payments is approx. \$2,043 (2010 - \$nil) made to the GNWT towards the purchase of a land and building. As at March 31, 2011, this payment is included in prepaid expenses.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

28. Financial instruments

Risks – overview

The Corporation's financial instruments and the nature of risks which they may be subject to are set out in the following table:

| Financial Instrument | Classification | Risks | | | | |
|--|-----------------------------|--------|-----------|----------|---------------|-------------|
| | | Credit | Liquidity | Currency | Market risks | |
| | | | | | Interest Rate | Other price |
| Measured at cost or amortized cost | | | | | | |
| Accounts receivable | Loans and receivables | X | | | | |
| Net receivable from related parties | Loans and receivables | X | | | | |
| Receivable from NTEC(03) for Taltson studies | Loans and receivables | X | | | | |
| Accounts payable | Other financial liabilities | | X | X | | |
| Long-term debt | Other financial liabilities | | X | | X | |
| Net lease obligation | Loans and receivables | X | X | | X | |
| Measured at fair value | | | | | | |
| Cash | Held for trading | X | | | | |
| Short-term debt | Held for trading | | X | | X | |
| Equity investments | Available-for-sale | X | | X | | X |
| Fixed-income investments | Available-for-sale | X | | X | X | |

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

Note 28. Financial instruments (continued)

a) Credit risk

Credit risk is the risk that a third party or a related party will cause a financial loss for NTPC by failing to discharge its obligation. The following table sets out NTPC's maximum exposure to credit risk under a worst case scenario and does not reflect results expected by the Corporation:

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Accounts receivable | \$ 14,199 | \$ 16,185 |
| Snare Cascades loan receivable | 18,756 | 19,269 |
| Sinking fund fixed-income investments | 15,838 | 22,598 |
| Sinking fund equity investments | 6,846 | 9,784 |
| Net receivable from related parties | 4,817 | 6,995 |
| Receivable from NTEC(03) for Taltson studies | 3,741 | 3,741 |
| Cash | 2,563 | 1,694 |
| Sinking fund short-term investments | 16,042 | 1,987 |
| | <u>\$ 82,802</u> | <u>\$ 82,253</u> |

Accounts receivable

NTPC minimizes accounts receivable credit risk by having a collections policy and terms and conditions of service consistent with industry standards. Credit risk is minimized by NTPC's large customer base. Thirty-five percent (2010 - 33%) of NTPC's sales are to two other utilities. Thirteen percent (2010 - 17%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 6 analyzes the age of customer accounts receivable.

Snare Cascades loan receivable

The credit risk for the loan receivable for the Snare Cascades hydro project was minimized by an assignment of lease payments and the security of the hydro facility itself.

Net receivable from related parties

Net receivable from related parties is comprised of the following balances:

| | <u>2011</u> | <u>2010</u> |
|--|-----------------|-----------------|
| Receivable from NT Hydro | | |
| for transfer of investment in NTEC(03) and SEL | \$ 4,565 | \$ 4,565 |
| Revolving loan receivable from NT Hydro | - | 1,556 |
| Short-term receivable from NT Hydro | (157) | 545 |
| Short-term receivable from NTEC(03) | 409 | 329 |
| | <u>\$ 4,817</u> | <u>\$ 6,995</u> |

Note 28. Financial instruments (continued)

Receivable from NT Hydro for transfer of investment in NTEC(03) and SEL

This balance is the receivable NTPC holds from NT Hydro for NT Hydro's investment in NTEC(03) and SEL and is due on demand and bears interest at prime less fifty basis points. The credit risk associated with this receivable is minimized by the fact that this receivable is to NTPC's parent company, which is a public agency and which in turn is owned by the Government of the Northwest Territories.

Revolving loan receivable from NT Hydro

This loan was repaid in 2011 when NTEC (03) obtained its own bank financing.

Short-term receivable from NT Hydro

This balance is the receivable NTPC holds from NT Hydro for various transactions and is due on demand and bears interest at prime less fifty basis points. The credit risk associated with this receivable is minimized by the fact that this balance is receivable from NTPC's parent company, which is a public agency and which in turn is owned by the Government of the Northwest Territories.

Short-term receivable from NTEC(03)

This balance is the receivable NTPC holds from NTEC(03) for various transactions and is due on demand and bears interest at prime less fifty basis points. The credit risk associated with this receivable is minimized by the fact that this balance is receivable from a company owned by NTPC's parent company, which is a public agency and which in turn is owned by the Government of the Northwest Territories.

There are no active markets for the amounts owing from related parties. NTPC has no immediate plans to demand repayment of the remaining balances.

Cash and sinking fund investments

NTPC minimizes the credit risk of cash and sinking fund investments by dealing with only reputable financial institutions and investing in securities that meet minimum credit ratings as stipulated by its investment policy and limiting exposure to any one security or asset class. An ongoing review is performed to evaluate changes in the status of counterparties. The sinking fund fixed-income investments do not include federal instruments as these are deemed risk free.

Derivatives

NTPC is not exposed to significant credit risk relating to derivative transactions.

b) Liquidity risk

Debt liquidity risk is managed by the use of sinking fund and amortization provisions on eight of the twelve debentures. NTPC arranges its financing in such a manner that the total amount of debt maturing in any given year does not exceed its ability to borrow in any given year. This practice gives the Corporation the maximum flexibility over the use of its cash flow such that both its existing capital expenditure program and its ability to consider any future investment opportunities will not be constrained.

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

Note 28. Financial instruments (continued)

Liquidity risk is also managed by continuously monitoring actual and forecast cash flows, having the opportunity to borrow on a short-term basis from the shareholder and by maintaining a \$20,000 operating line with a reputable financial institution. The operating line can be temporarily increased on a short-term basis if required.

The following table shows the maturities of the NTPC's short and long-term debt (excluding bank overdraft) as at March 31, 2011:

| <u>Timeframe</u> | <u>Dollar Value</u> | |
|--|---------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Less than 1 year | \$ 16,316 | \$ 37,257 |
| Greater than 1 year and not later than 6 years | 32,066 | 42,284 |
| Greater than 6 years and not later than 20 years | 103,557 | 84,083 |
| Greater than 20 years | 51,381 | 27,000 |
| | <u>\$ 203,320</u> | <u>\$ 190,624</u> |

c) Currency risk

Accounts Payable

NTPC is exposed to currency risk by purchasing supplies and property, plant and equipment in U.S. dollars. The Corporation does not hedge the risk related to fluctuations in the exchange rate between the U.S. and Canadian dollar due to the short-term and relatively small dollar value of the exposure.

Sinking Fund Investments

NTPC is exposed to currency risk by making sinking fund investments in foreign securities. The Corporate sinking fund policy has the flexibility to allow the use of derivatives to effectively hedge the currency exposure if required. The currency risk from investing in foreign markets, both bonds and equities, is not hedged in the sinking fund portfolio due to the short-term and relatively small dollar value of the exposure.

d) Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of loans receivable, the net lease obligation, long-term debt, short-term debt, interest rate derivatives, and fixed-income investments.

NTPC's short-term debt instruments have short maturities and fixed rates, thus their fair value will fluctuate as the funds are borrowed at current market interest rates.

All of the Corporation's outstanding long-term debt is fixed rate debt and the fair value of fixed rate debt fluctuates with changes in market interest rates but absent early redemption, cash flows do not.

Similar to long-term debt, if the Corporation holds a derivative instrument in the form of an interest rate swap, the fair value fluctuates with changes in market interest rates but absent early redemption, as the fixed rate payer, cash flows do not.

Note 28. Financial instruments (continued)

e) Other price risk

Other price risk is the risk that the fair value or future cash flows of NTPC's financial instruments 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.

When NTPC holds a derivative instrument in the form of a fuel commodity swap, the fair value fluctuates with changes in market commodity prices but absent early redemption, as the fixed price payer, cash flows do not.

The Corporation's sinking fund policy allows investment in Canadian and foreign equity and changes in equity prices modify the fair value of the equity investments and future cash flows. To reduce the Corporation's exposure to equity price fluctuations, the policy allows the use of derivatives to effectively hedge the price changes.

f) Sensitivity analysis for market risks

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

Net income and other comprehensive income could have been different if the variables impacting the financial instrument subject to market risk had varied by reasonably possible amounts from their actual balance sheet date values.

The sensitivity analysis of Corporation's exposure to currency risk at the reporting date has been determined based upon the hypothetical change taking place at the current balance sheet date. The U.S. dollar denominated sinking fund investments as at the balance sheet date has been used in the calculations. Purchases of U.S. denominated goods throughout the year have not been included in this analysis due to the small dollar value of these purchases.

The sensitivity analysis of NTPC's exposure to interest rate risk at the reporting date has been determined based upon the hypothetical change taking place at the beginning of the fiscal year and being held constant through to the current balance sheet date. Realized gains and losses on sinking fund fixed-income sales throughout the year have been recalculated and the unrealized gains and losses at the current balance sheet date have been recalculated for comprehensive income. Short-term interest expense and revenue will vary throughout the year.

The sensitivity analysis of the Corporation's exposure to other price risk arising from equity investments at the reporting date has been determined based upon the hypothetical change taking place at the current balance sheet date.

Note 28. Financial instruments (continued)

These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased amount, and unfavourable hypothetical changes in the assumptions result in a decreased amount, of net income and/or other comprehensive income. Changes in net income and/or other comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear.

In the table, the effect of a variation in a particular assumption on the amount of net income and/or comprehensive income is calculated without change to any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in more favourable foreign exchange rates as a result of the increased strength in the Canadian dollar), which might magnify or counteract the sensitivities.

| | Reasonable possible changes in market variables | | | | | |
|----------------------------|--|-------------|---------------------------|-------------|-------------------------|-------------|
| | Currency risk | | Interest rate risk | | Other price risk | |
| | 10% | | 25 basis points | | 10% | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 42 | \$ 1 | \$ 328 | \$ 387 | \$ 162 | \$ 48 |
| Other comprehensive income | \$ 247 | \$ 296 | \$ 242 | \$ 352 | \$ 685 | \$ 973 |

g) Fair value determination

The carrying value of cash, accounts receivables, net receivable from related parties, receivable from NTEC (03) for Taltson studies, accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments. These are level one classification.

The fair value of sinking fund investments were determined by using published price quotes. The fair value determination for short-term debt, long-term debt and the net lease obligation was estimated based on quoted market prices for Federal government bonds with the same or similar maturities adjusted for the credit spread at the point of issue.

The fair value of the Corporation's derivative financial instruments used to manage exposure to commodity price risk is estimated based on quoted market prices for the same or similar financial instrument.

NORTHWEST TERRITORIES POWER CORPORATION

**Notes to the Consolidated Financial Statements
For the year ended March 31, 2011
(\$000's)**

Note 28. Financial instruments (continued)

As at March 31, 2011, the fair value and carrying value of NTPC's financial instruments are:

| | Fair Value Determination Level | Fair Value | Carrying Value |
|--|---|-------------------|-----------------------|
| Held for trading financial assets | | | |
| Cash | Level 1 | \$ 2,563 | \$ 2,563 |
| Short-term investments | Level 1 | 16,042 | 16,042 |
| | | <u>\$ 18,605</u> | <u>\$ 18,605</u> |
| Available-for-sale financial assets | | | |
| Federal Government guaranteed bonds | Level 1 | \$ 3,665 | \$ 3,665 |
| Provincial Government guaranteed bonds | Level 1 | 2,641 | 2,641 |
| Municipal Government guaranteed bonds | Level 1 | 1,977 | 1,977 |
| Corporate bonds | Level 1 | 7,555 | 7,555 |
| Canadian equities | Level 1 | 4,125 | 4,125 |
| US and international equities | Level 1 | 2,721 | 2,721 |
| | | <u>\$ 22,684</u> | <u>\$ 22,684</u> |
| Other Financial liabilities | | | |
| Short-term debt | Level 2 | \$ 1,316 | \$ 1,316 |
| Long-term debt | Level 2 | 229,201 | 201,825 |
| Net lease obligation | Level 2 | 3,472 | 1,652 |
| | | <u>\$ 233,989</u> | <u>\$ 204,793</u> |

h) Impairment

NTPC assesses the decline in the value of the individual investments for impairment to determine whether the decline is other than temporary. The Corporation makes this assessment by considering available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the individual investment.

As at March 31, 2011, NTPC provided an allowance for doubtful accounts of \$361 (2010 - \$283) for some of its accounts receivable accounts with amounts outstanding longer than 90 days. The Corporation does not consider any other financial instrument to be impaired (2010 - \$nil).

NORTHWEST TERRITORIES POWER CORPORATION

Notes to the Consolidated Financial Statements For the year ended March 31, 2011 (\$000's)

29. Investments in joint ventures

Included in NTPC's financial statements, through its subsidiary NTEC, is the shared ownership (50%) in one residual heat project in Fort McPherson. The impact of this investment is as follows:

| | <u>2011</u> | <u>2010</u> |
|---|---------------|---------------|
| Other revenues | \$ 70 | \$ 104 |
| Operating expenses including amortization | 45 | 44 |
| Net income | \$ 25 | \$ 60 |
| Current assets | \$ 56 | \$ 142 |
| Non-current assets | 504 | 529 |
| | <u>\$ 560</u> | <u>\$ 671</u> |
| Current liabilities | \$ 13 | \$ 25 |
| Non-current liabilities | - | - |
| Shareholder's equity | 547 | 646 |
| | <u>\$ 560</u> | <u>\$ 671</u> |
| Cash flows provided by operating activities | \$ 50 | \$ 111 |
| Cash flows provided by investing activities | - | 22 |
| Cash flows used in financing activities | (125) | (150) |

30. Subsequent events

a) Long-term debt

Subsequent to the year end, the Corporation retired its \$15,000, 11.125% long term debt. This was funded by sinking fund investments.

b) Bluefish hydro dam – project permit

Subsequent to the year, the Corporation submitted a final project permit for the Bluefish hydro dam project. The estimated total project cost is \$37,000 with a planned completion date of August 2012.

31. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

CONSOLIDATED FINANCIAL SUMMARY

(unaudited)

Northwest Territories Power Corporation
Consolidated Financial Summary
Years Ending March 31

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|-----------------------------------|----------|----------|----------|----------|----------|
| Income Statement | | | | | |
| Sale of Power | \$81,700 | \$81,572 | \$82,768 | \$82,512 | \$76,748 |
| Other Revenue | 1,175 | 1,355 | 1,223 | 1,339 | 1,339 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 82,875 | 82,927 | 83,991 | 83,851 | 78,087 |
| Fuel and lubricants | 18,852 | 19,054 | 19,598 | 18,719 | 17,758 |
| Salaries and wages | 21,147 | 19,851 | 18,874 | 18,594 | 17,759 |
| Supplies and services | 13,229 | 13,429 | 12,464 | 11,305 | 10,795 |
| Amortization | 14,719 | 14,145 | 13,304 | 13,150 | 12,861 |
| Travel and accommodation | 2,229 | 2,145 | 2,617 | 2,197 | 1,995 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 70,176 | 68,624 | 66,857 | 63,965 | 61,168 |
| Earnings from operations | 12,699 | 14,303 | 17,134 | 19,886 | 16,919 |
| Interest Income and other revenue | 275 | 478 | 970 | 145 | 236 |
| Government Contributions | 48 | 153 | 51 | 47 | - |
| Interest Expense | 9,003 | 8,854 | 10,954 | 11,075 | 10,710 |
| Net income | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,019 | 6,080 | 7,201 | 9,003 | 6,445 |
| Summary Balance Sheets: | | | | | |
| Property, plant and equipment | 269,871 | 258,434 | 252,997 | 243,439 | 232,961 |
| Capital Work in Process | 19,207 | 16,366 | 9,270 | 6,442 | 13,352 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 289,078 | 274,800 | 262,267 | 249,881 | 246,313 |
| Current Assets | 43,809 | 29,722 | 38,478 | 40,626 | 22,154 |
| Other Long Term Assets | 44,961 | 60,096 | 53,936 | 64,035 | 53,983 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Assets | 377,848 | 364,618 | 354,681 | 354,542 | 322,450 |
| Current Liabilities | 35,466 | 60,628 | 55,013 | 80,722 | 33,782 |
| Long term Debt | 187,320 | 153,653 | 154,674 | 130,798 | 153,439 |
| Other Long Term Liabilities | 49,398 | 47,466 | 45,950 | 45,006 | 46,522 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Liabilities | 272,184 | 261,747 | 255,637 | 256,526 | 233,743 |
| Shareholders Equity | 105,664 | 102,871 | 99,044 | 98,016 | 88,707 |
| Total Liabilities and OE | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 377,848 | 364,618 | 354,681 | 354,542 | 322,450 |
| Capital Expenditures | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 21,553 | 25,305 | 15,236 | 18,586 | 16,555 |

WRITE-OFF LIST

for the year ended March 31, 2011

The following are those assets, debts, or obligations, in excess of \$500, that the Corporation has written off in the year, pursuant to Section 84 of the *Financial Administration Act*.

Utility Accounts

| Plant | Name | Amount | Name | Amount | |
|----------------------------------|----------------------------------|-------------|------------------------|------------------|--------------------|
| Behchoko | Jane Lafferty | \$1,320.71 | Ruquel Nuttall | \$1,167.75 | |
| | Belinda Sanspariel | \$2,068.11 | Ken Farwell | \$677.97 | |
| Lutsel k'e | Michael Rabesca | \$2,388.91 | David MacDonald | \$721.77 | |
| | | | Rapid Travel | \$945.50 | |
| | | | Bruce O'Keefe | \$1,030.66 | |
| | | | Wael Rafat | \$631.37 | |
| Fort Simpson | Andrew Hillaby | \$717.11 | Ian Morrice | \$504.99 | |
| | Brandon Norwegian | \$1,759.96 | Juliet DiMaano | \$553.13 | |
| | Thompson Jodie / Burrill Dana | \$543.15 | Tyler Bain | \$960.71 | |
| Fort Liard | Alana Foley | \$671.33 | Delta Cardinal | \$2,825.54 | |
| | Energy Effcient Technologies Inc | \$8,799.72 | Yussef El-Qadri | \$1,885.96 | |
| | Energy Effcient Technologies Inc | \$4,892.92 | Norman Wells | Joseph Watson | \$622.63 |
| | Energy Effcient Technologies Inc | \$7,749.33 | | Derek Szmuto | \$2,040.27 |
| Energy Effcient Technologies Inc | \$4,570.84 | Tuktoyaktuk | Polar Pack Cafe | \$1,428.00 | |
| Jean Marie River | William Sake | | \$3,868.02 | Aklavik | Walter Gardlund |
| Inuvik | Wayne Mitchell | \$537.75 | Deline | Cynthia Modeste | \$902.59 |
| | Jeremy Barker | \$1,303.46 | Fort Good Hope | Billy McNeely | \$2,927.38 |
| | Archie Sr Inglangasuk | \$1,099.30 | | Margo Lavasseur | \$2,233.00 |
| | Brian Power | \$883.93 | Paulatuk | Bettylou Morris | \$984.25 |
| | Rob Caldwell | \$2,584.83 | | Ulukhaktok | Bobby Alikamik |
| | Edwin Amagonalok | \$728.70 | Michael Butler | | \$1,635.03 |
| | Mervin Gardlund | \$2,389.59 | Tulita | Leonard Masuzumi | \$555.17 |
| | Pokiak Services | \$5,983.05 | | Brian Tessier | \$2,185.94 |
| | D Storr & Sons | \$4,617.98 | | Arsenne Menacho | \$10,994.18 |
| | D Storr & Sons | \$1,604.43 | Corporate Total | | \$93,531.13 |
| | Dorathy Wright | \$2,090.18 | | | |
| | Mahmoud Mustafa | \$2,868.50 | | | |
| | Salaheldien Malik | \$2,858.96 | | | |
| | Josh Heggie | \$2,863.36 | | | |
| | To Go's Restaurant Ltd | \$7,592.68 | | | |
| | Brendan Buckle | \$1,081.05 | | | |
| | Ahmad Tamim | \$714.93 | | | |
| Abe Bonnetplume | \$3,922.96 | | | | |
| Ahmed Mustafa | \$1,252.25 | | | | |

Non-utility Accounts

| Name | Amount | Name | Amount |
|------------------|------------|------------------------|-------------|
| Darcy Sibbeston | \$1,047.60 | Patrick Kabel | \$ 657.66 |
| Patrick Kinsella | \$7,399.20 | Gardtal Holdings | \$ 1,918.96 |
| | | Corporate Total | |
| | | \$11,023.42 | |