# A Powerful Past

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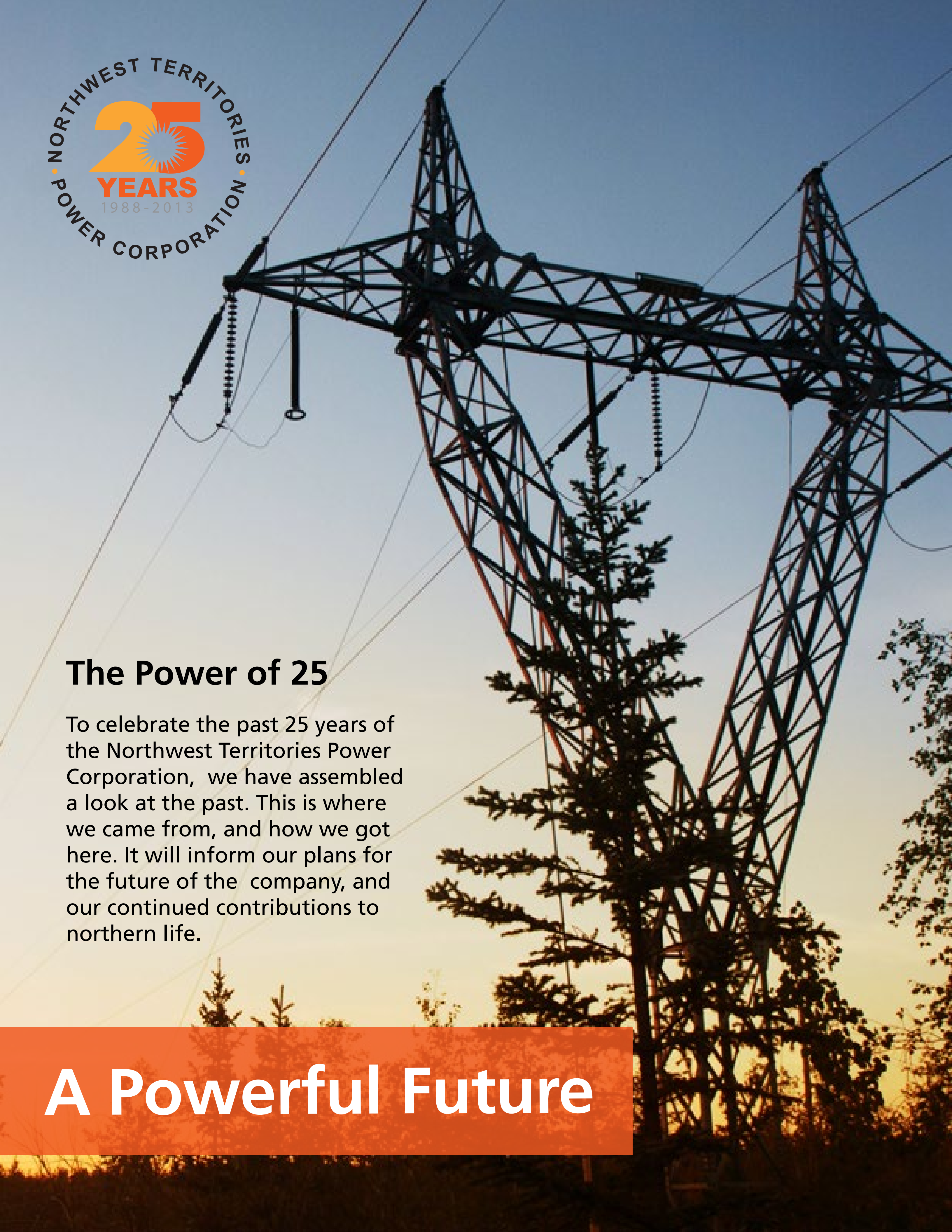
2013 Annual Report

NORTHWEST TERRITORIES
POWER
CORPORATION
25 YEARS
1988-2013



NORTHWEST TERRITORIES POWER CORPORATION
25 YEARS
1988-2013

## The Power of 25

To celebrate the past 25 years of the Northwest Territories Power Corporation,  we have assembled a look at the past. This is where we came from, and how we got here. It will inform our plans for the future of the  company, and our continued contributions to northern life.

# A Powerful Future

2013 Annual Report

# Celebrating 25 Years In The North

## Contents



# Mission, Vision and Values

NTPC's Mission, Vision and Values statements guide its future direction of meeting, or exceeding, the expectations of its shareholder and customers. The guidance and experience of our past has shaped these statements into what they are today.

## Mission

NTPC's mission is to generate, transmit and distribute electricity in a safe, reliable, efficient and environmentally sound manner; striving to reduce reliance on fossil fuels. NTPC exists to provide value to its shareholder and customers through the efforts of a highly dedicated, skilled, and productive workforce.


**May 1988**

May 5th Government of the Northwest Territories acquires Northern Canada Power Commission from federal government

## Vision

Our vision is to be the provider of choice to our customers, a valuable partner to industry and Aboriginal groups in the NWT, as well as a performance leader in the utility industry. As a performance leader, NTPC will develop a highly innovative team that achieves operational excellence, provides industry-leading customer satisfaction and delivers superior financial performance by demonstrating fiscal responsibility, and pursuing growth opportunities. NTPC will also work with stakeholders to support development of the tremendous resource potential of the NWT in a sustainable and responsible manner creating long term benefits for its customers and residents alike.

# Values

While achieving the Corporation's Vision and Mission, NTPC will uphold its core values of:

**Putting the safety of our employees and the general public first**

**Protecting the environment and working towards a sustainable existence**

**Complying with all applicable legislation and regulations**

NTPC will act ethically and honestly; treating employees, customers and all other stakeholders with Respect, Integrity and Professionalism.

# Goals

- Realize zero injuries through superior safety performance and practices
- Accomplish environmental sustainability through increased use of renewable energy
- Achieve high levels of reliability while maintaining affordably priced electricity
- Meet or exceed all customer commitments
- Develop and retain a highly skilled workforce that reflects the demographics of the NWT
- Support economic development and growth throughout the NWT
- Be efficient and effective in our daily operations through continuous improvement
- Support communities and encourage employee involvement
- Educate customers and youth about conservation
- Meet the future energy needs of NWT residents through proactive planning and consultation

# Board and Commitees

## Board Members (As at March 31st 2013)

| Brendan Bell | David Tucker | Joseph Mackenzie | Eric Menicoche | James Schaefer |
|---|---|---|---|---|
| *Chair* | Vice Chair | Director | Director | Director |

## Officers

Brendan Bell - Chair

Emanuel DaRosa - President & Chief Executive Officer

Judith Goucher - Chief Financial Officer

Daniel Roberts - Director, Asset Management & Engineering

David Duncan - Director, Transmission & Distribution

Robert Schmidt - Director, Hydro Operations

Mike Ocko - Director, Thermal Operations

Cheryl Tordoff - Corporate Secretary

Danny Yakeleya
Director

Louise Dundas Matthews
Director

Ron Threlkeld
Utility Advisor

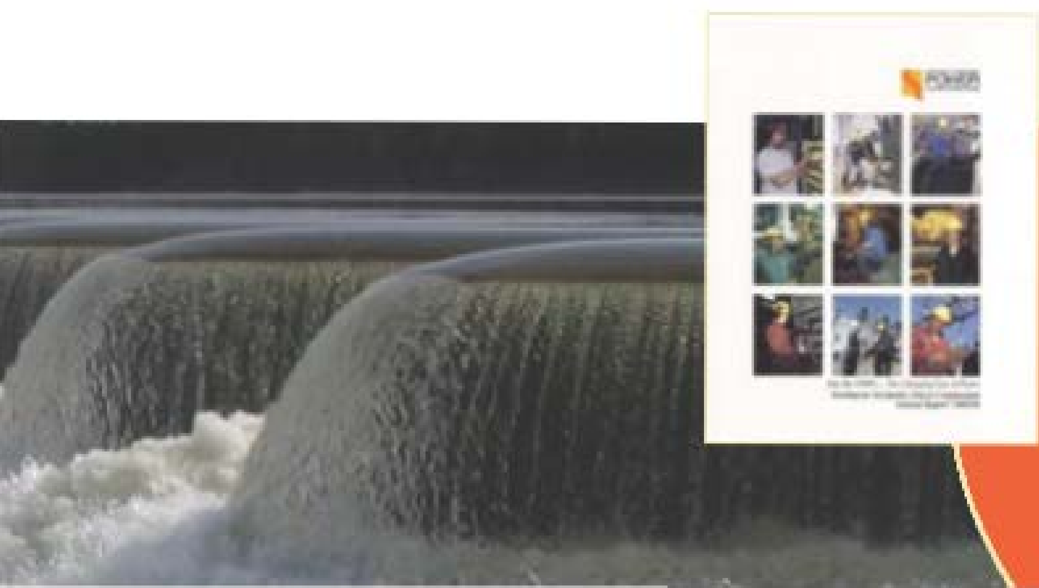
Cheryl Tordoff
Corporate Secretary

## Audit & Efficiency Committee

David Tucker - Chair
Eric Menicoche - Member
Danny Yakeleya - Member
Ron Threlkeld (Utility Advisor)

## Governance and Compensation Committee

Brendan Bell - Chair
Joseph Mackenzie - Member
James Schaefer - Member
Louise Dundas Matthews - Member



**1989**

Head office moved to Hay River. The Commission was renamed the Northwest Territories Power Corporation.

NWT Public Utilities Board commenced partial regulation of the Corporation.

# A Proud History of Strong Leadership

## Board of Directors - 1988 to 2013

Allen, Peter Derek ................................ 2002-2012

Alverez, Pierre Roch ............................. 1995-2000
(Chair 1996-2000)

Antone, Jim ......................................... 2006-2008

Bell, Brendan .................................. 2010-Current
(Chair 2010-Current)

Blennerhassett, Richard Anthony ........... 2000-2001

Bolivar, John Richard ............................. 2002-2002

Britton, Barry James ............................. 1989-1994

Brown, Vincent E. ................................ 2008-2009

Cayen, Greg D. ..................................... 2006-2008

Clarke, Brenda ...................................... 1991-1996

Cleveland, Mark.................................... 2002-2002

Cooper, Donald M. ................................ 2002-2002

Courneya, Leon James ........................... 1996-2006

Dundas Matthews, Louise ................... 2013-Current

Evalik, Charlie Kakotok .......................... 1997-2000

Ferguson, Dana..................................... 1988-2005

Gaule, Andrew Paul ............................... 2000-2002

Groenewegen, Jane ............................... 1988-1991

Guther, Peter Wilfred ............................. 2002-2006

Hardy, Rod ............................................ 1988-2002

Harper, Ken .......................................... 1988-1998

Hawkins, Lyle ........................................ 1991-1997

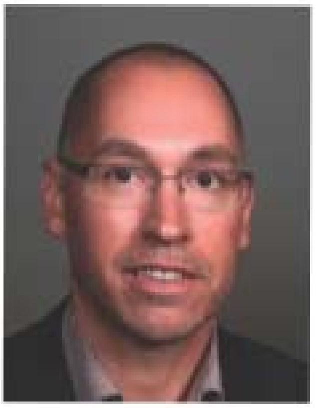
Hope, Arnold ........................................ 2002-2003

Kaylo, Kelly M. .......... 1998-2002
Kidd, Ronald .......... 1990-1996
Lavigne, Marion Judith .......... 2002-2009
Lavoie, Eddie .......... 2009-2013
Lindel, Nancy Karetak .......... 1997-1997
Mackenzie, Joseph .......... 2012-Current
McDonald, James G. .......... 2013-Current
McNeely, Daniel Mark .......... 2006-2009
Menicoche, Eric .......... 2009-Current
Merkosak, Simon .......... 1996-2001
Nerysoo, Richard W. .......... 2002-2006 (Chair 2002-2006)
Norwegian, Gladys .......... 2005-2005
Olsen, J. Norman .......... 1988-1997
Parker, John Havelock .......... 1989-2002
Pellissey, Stella .......... 2008-2009
Rattray, Bruce .......... 2002-2002
Robertson, James Hutton .......... 1988-1996 (Chair 1988-1996)
Schaefer, James .......... 2009-Current
Sebert, Louis Andrew .......... 2002-2009
Shelton, Eric Henry .......... 1998-2002
Simailak, David .......... 1998-2001
Snider, Elizabeth .......... 2002-2002 (Chair 2002)
Stewart, Gordon MacPherson .......... 1995-2002 (Chair 2000-2002)
Tucker, David .......... 2009-Current
Vician, Peter .......... 2002-2002
Voytilla, Lew .......... 2002, 2006-2010 (Chair 2006-2010)
Wah-Shee, James Jason .......... 2007-2012
Williams, Ronald Douglas .......... 1994-1997
Woods, Raymond .......... 2002-2004
Green, Gordon .......... 1989-1992
Guthrie, Archibald .......... 1994-1996
Yakeleya, Danny .......... 2010-Current
Zubko, Tom .......... 1997-2002

## Presidents 1988 to 2013

Robertson, James .......... 1988-1990
Kidd, Ronald D. A. .......... 1990-1994
Guthrie, Archibald James .......... 1994-1996
Alverez, Pierre Roch .......... 1996-1996
Courneya, Leon James .......... 1996-2010
David Axford .......... 2010-2011
DaRosa, Emanuel .......... 2012-Current

# A letter from the Chair



Brendan Bell
Chair

2013 marks the Northwest Territories Power Corporation's (NTPC) 25th anniversary since the Government of the Northwest Territories acquired the assets of the Northern Canada Power Commission from the federal government. As we recall the Corporation's long history in the north, we can reflect on some of the recent milestones, but must be mindful of the need to honour our commitments to our customers and our shareholder, both today, and in the years to come.

One notable milestone was the completion of the new Bluefish Dam – officially commissioned in the fall of 2012 - to replace an aging structure that provided clean hydro power to the Con Mine back in the 1940's. The dam successfully supplied the Yellowknife system for another 9 years after the mine closed in 2003. Although a costly investment to build a new dam at the site, we are confident this will contribute a further 70 years of clean hydro power to the NWT electricity system. These kinds of infrastructure investments, along with grid expansion, are necessary to address rising costs by integrating our electricity system, and ultimately improving reliability to benefit all northerners.

At the board level, safety has been a particular area of focus over the past year and will continue to receive the attention that such an important subject requires. It's vitally important that NTPC do its utmost to protect people and the environment across all its sites and operations. This year the organization has followed the Board's lead and enhanced its safety protocols and practices to instill a stronger safety culture. I'm pleased to note that NTPC recently achieved COR Certification for the first time, the highest safety standard in the industry, and we expect this growing commitment to safety to strengthen the organization going forward.

As well, NTPC continues to work with government, private sector and aboriginal partners on initiatives directed at increased reliability and reducing costs. One example is the pilot project to use liquefied natural gas to offset diesel generating power for the Town of Inuvik. If the pilot project is successful, we will look to other diesel communities that may also benefit from the cleaner burning, more cost effective natural gas that could one day be sourced here in the NWT.

**1990**

A new 150 km (115 kV) transmission line was installed between Snare and Yellowknife.

**1992**

An agreement with the Dogrib Power Corporation to construct, own and lease back for 65 years a 4.3 MW hydro electric facility on the Snare River was made.

Full regulation of the Corporation by the NWT Public Utilities Board started.

In terms of renewable energy, solar is developing a proven track record for displacing diesel consumption in our territory and the successful expansion of the Fort Simpson Solar project is evidence of that. As well, work in Colville Lake to integrate battery and solar energy shows promise for a number of our small remote communities looking to eliminate diesel during the summer months.

On a personal note, I greatly appreciate the guidance and oversight contributed by my colleagues on the Board of Directors. Although there is much more work to be done, their collective knowledge and wisdom, together with the demonstrated commitment from the leadership and staff at NTPC, continues to move the Corporation forward in a positive fashion.

Brendan Bell
Chair

# A letter from the President

Emanuel DaRosa
President & CEO

The Northwest Territories Power Corporation has grown and changed in many ways during its first 25 years of service to Northerners, but remains firmly rooted in a deep and constant commitment to provide exceptional value to our customers and shareholder.

This anniversary year provides an opportunity to celebrate some significant milestones in NTPC history, and to proudly reflect on what we have accomplished since 1988. It's necessary and important to look back once in a while, to know where our journey started, and how far we've come. At the same time, we must keep looking ahead to know where we're going and how we're going to get there.

As we celebrate our past, our strategic plan continues to guide and drive us forward by keeping us focused on the tasks at hand and those further ahead. We have completed 59 strategic initiatives in the plan over the past year – a considerable achievement for an organization of 180 employees. I'm immensely proud of our employees and the way they stepped up and embraced the challenge and the opportunity to make a lasting difference.

It was their hard work and dedication that enabled us to finish the new Bluefish dam on time and within the approved budget, complete a general rate application, expand the solar energy system in Fort Simpson, improve our health and safety programs to meet COR certification standards, make plans to introduce liquefied natural gas in Inuvik, improve system reliability for Yellowknife, and meet our financial goals.

These notable accomplishments and those to follow, will help to position and strengthen NTPC as we progress with comprehensive plans for the future of the NWT's power system that focus on making it greener, increasing reliability, stabilizing power rates, and supporting economic development. We're working in concert with the Government of the Northwest Territories and our sister company, NT Energy, to make this vision a reality that will benefit northern residents, industries and businesses in many ways.

We're grateful that the GNWT continues to demonstrate strong support for NTPC and the various energy and infrastructure projects we've undertaken that align with its broad strategy for increasing renewable energy sources and reducing dependence on fossil fuels that are both costly and contributors to greenhouse gas emissions. Our pilot project with LNG in Inuvik meets that goal on both counts, because that fuel is cheaper and cleaner than diesel. Our next goal is to expand that energy solution to diesel-powered communities with year-round road access in order to reduce rates and wean them off diesel.

**1996**

Snare Cascades hydro, a 4.3 MW plant, was commissioned.

**1997**

Community-based rates were established.

In communities within the thermal rate zone that don't have highway access all year, LNG is not a viable option, so we're pursuing alternative solutions to achieve similar results. For example, we're moving forward to implement an innovative approach for the small, isolated community of Colville Lake that involves installing a solar energy system which will store power in a back-up battery system to use alongside diesel when required. The system will be built to accommodate wind power in the future.

On a larger scale, we're excited about potential solutions to break down the geographic barriers that isolate our Snare and Taltson hydro systems from each other and from the rest of the North American power grid. We're working closely with the government and NT Energy to explore the value of building a transmission grid that would tie our North Slave and South Slave hydro systems together, and extend a transmission line into southern Canada. Such a far-reaching grid could help to unleash untapped hydro potential and create savings from economies of scale and access to lower-cost power that are lacking today because of our system's standalone structure. Those savings can result in lower power rates for our customers and stimulus for economic growth across the territory.

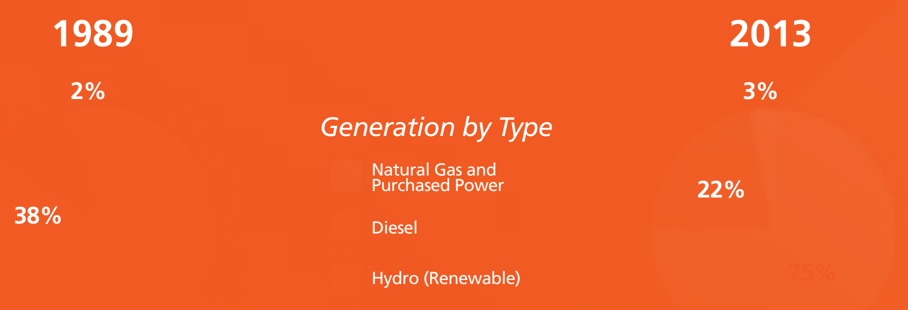
The opportunity to translate a vision into reality and to develop and implement sustainable energy solutions that benefit our customers, motivates us at NTPC to work hard on their behalf, as we have since 1988. No one can predict what the next 25 years hold for NTPC, but you can be sure that it will be marked by continued progress and a desire to serve the interests of Northerners.

Emanuel DaRosa
President & CEO

# 25 years defining us.

## Years of Perspective


## Renewable Energy Growth




* *Solar and other renewable less than 1%*

## A History of Service

# Blue Fish Dam Project
# The Goal Reached

A history in power, now
an investment in our future.

## 2013 Highlights

59 strategic initiatives

180 employees

General rate application

Improved health and safety programs

Liquefied natural gas initiative in Inuvik

Increased renewable energy development

Seeking solutions to break down geographic barriers

**Progress in the desire to serve the interests of Northerners.**

## A History of Support

# Perspectives

As we look back at the past 25 years of the NTPC, we asked some of our people about their experiences with us. From relative newcomers to those having worked with us since the beginning, it has given us an interesting perspective on the changes to the company, its people, and the North itself.

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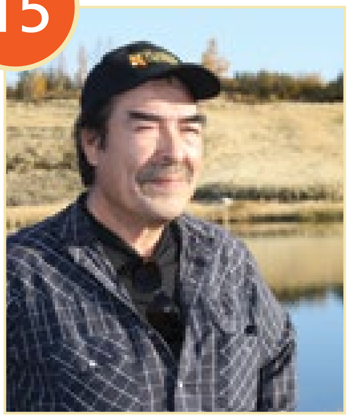

## Stanley McNeely

**(Over 15 years of service)**

**Q#1**

It's been great to watch the Corporation's equipment make the transition form from manual operation to the automation system and computers.

**Q#2**

Having my own Ski-doo when I was 14-years old.

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## Karen Mulligan

**(Over 1 year of service)**

**Q#1**

I haven't been here long but I think the increased focus on safety of employees, reducing work place accidents, the COR certification and new policies and procedures.

**Q#2**

Road to trip to Yellowknife – August Long weekend 2012: Lady Evelyn Falls, taking the ferry across the Mackenzie River, seeing the buffalo on the highway and fish and chips at Bullocks.

1

**Q#1** What significant positive changes have you seen throughout your years at NTPC?

**Q#2** Could you share one of your favourite moments about living in the NWT?

## Myra Berrub

**(Over 10 years of service)**


### Q#1

The biggest change I've seen during my 10 years at NTPC has been a stronger commitment to working with our shareholder. In particular, in the Energy Services area, the GNWT has developed policy to increase renewable energy development. This includes corresponding funding support for renewable energy projects. NTPC is helping the GNWT meet their targets with the installation of solar photovoltaic projects such as the 104 kW array in Fort Simpson, and soon with a solar battery diesel hybrid project in Colville Lake.

### Q#2

I love travelling to the smaller communities and meeting local residents to collaborate on energy-related projects which promote efficiency, environmental sustainability, and economic development. These are beneficial not only to NTPC but also to the communities. I've always found people in the communities to be so warm and welcoming. Community engagement brings a great deal of satisfaction to my work.

# Perspectives

## Kelly McLeod

**(Over 5 years of service)**

### Q#1

Since I started with the NTPC back in 2008, I have successfully started and finished my heavy equipment technician ticket. During this time I have noticed a significant change in the amount of outages at the Corporation in our region. It went from a daily event, to now a monthly if not quarterly. I think this is a great improvement.

### Q#2

I was born and raised in the NWT so for me to say something in the context of moving here is a little hard. What I can say is that it is a great place to live, although the weather is a little odd at times and it can be cold in the winter. But hey, if I didn't like it I would move.

## Ken Dies

**(Over 25 Years of service)**

### Q#1

The continued hiring of experienced professionals, while keeping the small family atmosphere has been a positive change. The company empowers employees to voice their concerns and this gives us the opportunity to make changes and work with newer technologies, and to work safer. One of the best positives would be that NTPC has been able to keep the small company feeling that we have now, and the care we have for each other.

**Q#2**

After 52 years in the North it is hard to come up with one favourite moment – of course there would be the births of Brahm, Naomi, and Anika. Sports related moments would be scoring 6 goals in a Territorial Championship game against Hay River, and breaking the Juvenile 400 meter record in 1977, and still holding the record today! NTPC has given me several memorable moments – witnessing a meteor hit Strut Lake, being able to visit almost every community in the NWT, as well as places in the middle of nowhere doing snow surveys, and being given the opportunity to see the wonder and vastness of our territory.

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## Robert Burgin

**(Over 20 Years)**

**Q#1**

Employees have many opportunities to grow with NTPC. I have been a Casual Labourer, Plant Superintendent in Deline, Apprentice Electrician, Maintenance Electrician in Inuvik, Electrician / Operator, Manager Plant Operations, Assistant Manager Operations, and Maintenance and Manager Electrical Services in Yellowknife. It has been great to see the departments of engineering, operations, and maintenance working together to improve system reliability.

**Q#2**

I have had so many favorite moments living in the NWT it is hard to share one. I have canoed the Nahanni River, boated the Mackenzie River and Great Slave Lake from Inuvik to Yellowknife and back, and gone fishing on Great Bear Lake. I've always enjoyed visiting many of the communities in the territory and appreciated the solitude and scenery at Snare and Bluefish Hydro, just to mention a few.

# Long Service Awards

## A History of Recognizing Employees

Employees are the face and the backbone of any organization. NTPC is fortunate to have a workforce comprised of many loyal and dedicated employees with years of service to the corporation and its customers. They bring their broad knowledge, skills, and experience to everyday tasks – both big and small – and contribute to the success of their co-workers and the Corporation.

It's hard to measure individual contribution, but annually we recognize long-service employees, those who have been with us more than five years. This has been in place since the inception of NTPC in 1988 and continues to recognize employees for every five years of service.

| Employee | Area | Years of Service |
|---|---|---|
| Fowler, Bruce | Yellowknife | 5 |
| Landry, JP | Yellowknife | 5 |
| Kenny, Dean | Yellowknife | 5 |
| Nadeem, Mustansar | Yellowknife | 5 |
| Janz, Craig | Yellowknife | 10 |
| Cochrane, Roberta | Yellowknife | 10 |
| Burgin, Robert | Yellowknife | 20 |
| Jonasson, Gerald | Lutsel K'e | 20 |
| Roche, Todd | Fort Smith | 10 |
| Bennett, Marilyn | Fort Smith | 15 |
| Leguerrier, Yves | Fort Smith | 25 |
| Pellissey, Michael | Wrigley | 5 |
| Bernhardt, Ernest | Inuvik | 5 |
| McLeod, Kelly | Inuvik | 5 |
| Simpson, Marvin | Inuvik | 10 |
| Eldridge, Robert | Inuvik | 15 |
| Dosedel, Wilma | Inuvik | 20 |

| Employee | Area | Years of Service |
| --- | --- | --- |
| Cockney, Richard | Tuktoyaktuk | 5 |
| Greenland, Michael | Aklavik | 5 |
| McNeely, Stanley | Ft. Good Hope | 5 |
| Kaodloak, Edward | Ulukhaktok | 15 |
| Mackie, Crystal | Hay River | 5 |
| Harrison, Bradley | Hay River | 5 |
| Clark, Joshua Lane | Hay River | 5 |
| Rupert, Annette | Hay River | 5 |
| Berrub, Myra | Hay River | 5 |
| Smith, Edward | Hay River | 10 |
| Gostick, Bill | Hay River | 10 |
| Courtoreille, Terence | Hay River | 15 |
| Riche, Mark | Hay River | 15 |
| Bouchard, Suzanne | Hay River | 15 |
| Goucher, Judy | Hay River | 15 |
| Munro, Donna | Hay River | 20 |
| Gardiner, Vern | Hay River | 20 |

# Community Investment

## A History of Community Support

NTPC is committed to investing in the communities where we operate and where our employees live and work. Financial and in-kind donations and sponsorships demonstrate our desire to support the activities and organizations that help to make Northern communities such special places. It's important too, that our employees contribute in their own way and many give freely of their time and talents to a wide range of causes.

**Over the past year, we have invested over $85,000 in communities across the NWT. Recipients were:**

NWT Track & Field Championships


Basketball NWT

Hamlet of Tulita
Aklavik Mad Trapper Rendezvous Carnival
Acho Dene Koe First Nations
Fort Resolution Volleyball Tournament
Wha Ti Lakers/Chief Hockey Team
National Addiction Awareness Week (Sahtu)
Polar Pond Hockey Association
Tuktoyaktuk Beluga Jamboree
Dene Nation Special Assembly
Canadian Cancer Society
Wha Ti Winter Carnival
Helen Kalvak Elihakvik School, Ulukhaktok
Wood Buffalo Frolics
Fort Resolution Spring Carnival
Muskrat Jamboree

Behchoko Spring Carnival
NWT Ladies Dominion Curling team
Salvation Army NWT Resource Centre
Inuvik Child Development Centre
NWT & Nunavut Construction Association
Fort Smith Trade Show
Fort Smith Animal Society
Wha Ti Women's Volleyball
NAOSH Week
Ulukhaktok Christmas
Inuvik Youth Centre
Sutherland House
Deh Cho Friendship Centre
Hay River Committee for Persons with Disabilities
Community Government of Wha Ti


Chief Albert Wright School, Tulita
Aklavik Christmas House Lights Decorating Contest
Hay River Christmas Recreation
Hay River Figure Skating Club
Fort Smith Legion Branch
Hay River Hospital Foundation
Yellowknife Wado Kai Karate Association
Hay River Minor Hockey Association
Local Government Administrators of NWT
CNIB
Chief Jimmy Bruneau School, Behchoko
Midway Lake Festival (Fort McPherson)
Hay River Library
Gameti Canada Day
NWT Chamber of Commerce AGM
NWT Association of Communities AGM
Inuvik Transition House
Inuvik Petroleum Show
Behchoko Youth Hockey Program
Hay River Chamber of Commerce
Hay River Jr Boys Curling Team
Hay River Secret Santa
Wha Ti Christmas Recreation
Inuvik Homeless Shelter
Hay River Spookarama
Lutsel K'e Career Fair
Inuvik Chamber of Commerce Gala
Fort Smith Food for Thought Lunch Program
NWT Special Olympics
Dene National Assembly
Ocean Days (Paulatuk)
Nahendeh Golf Tournament
Wood Buffalo National Park-Parks Day
National Aboriginal Day

# The Bluefish Dam Project:

## The Goal Reached: A history of power now an investment in our future

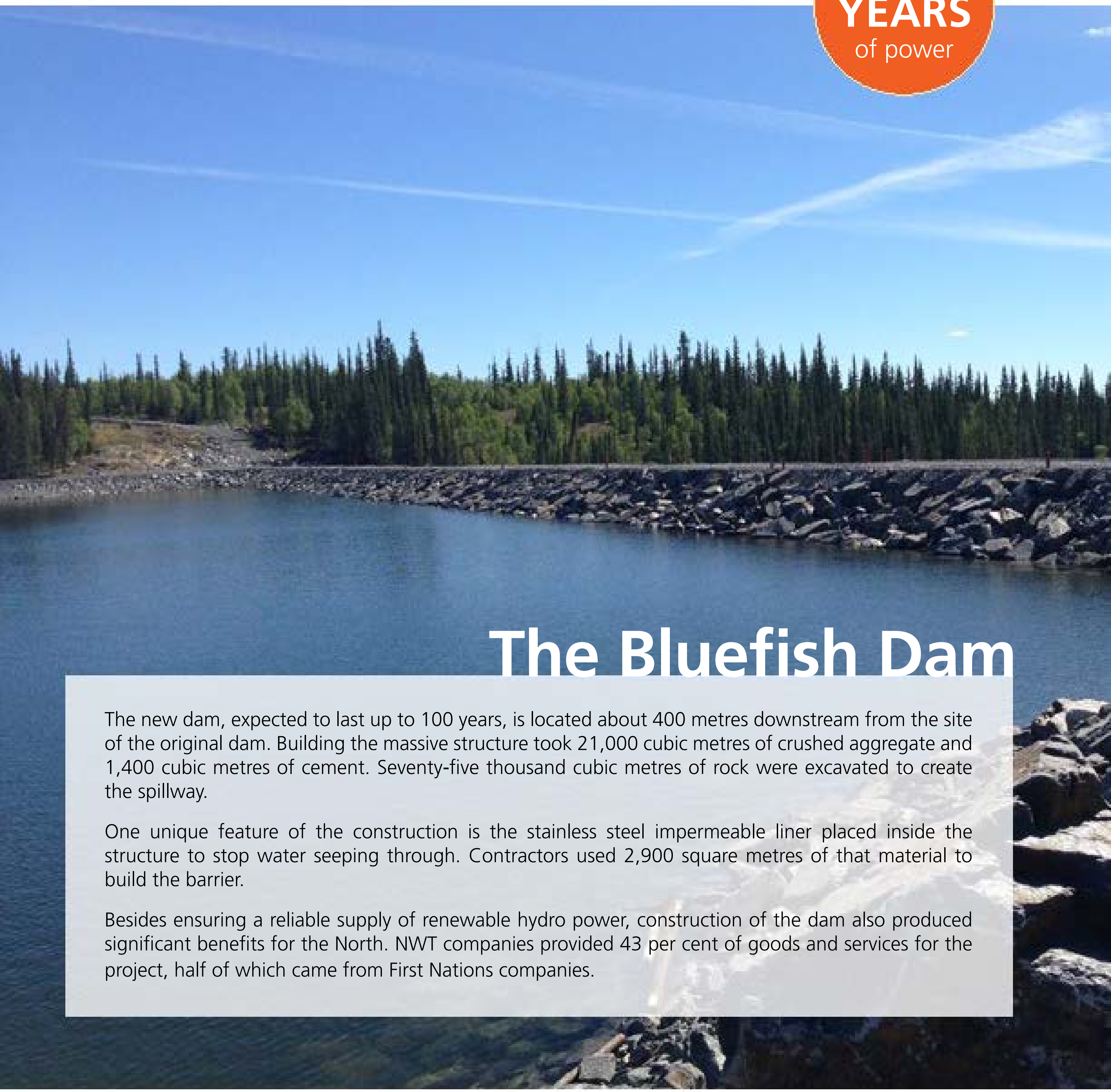
The new Bluefish hydro dam, the largest capital project ever undertaken by NTPC, was completed in November 2012 on time and within the approved budget.

A modest ceremony took place at that time to mark completion of the $37.4 million project, and was followed by an official commissioning ceremony in August 2013.

NTPC acquired the original dam, two power plants, and other facilities when it bought Bluefish Hydro from Miramar Con Mine Ltd. in 2003. The Bluefish project replaces the timber crib dam that was built over 70 years ago by Cominco Con Mines to supply power to its Yellowknife mining operations. Upgrades in 1973, 1983, and 2007 extended the normal 40-year life of the dam.

The Bluefish hydro site is at Bluefish Lake, the headwaters of Yellowknife River. In conjunction with the Snare hydro system, it provides power for the communities of Yellowknife, N'Dilo, Dettah, and Behchoko. Bluefish has the potential to provide up to 20% of the annual electricity needs that would otherwise require 11 million litres of diesel generation.

100 YEARS of power



# The Bluefish Dam

The new dam, expected to last up to 100 years, is located about 400 metres downstream from the site of the original dam. Building the massive structure took 21,000 cubic metres of crushed aggregate and 1,400 cubic metres of cement. Seventy-five thousand cubic metres of rock were excavated to create the spillway.

One unique feature of the construction is the stainless steel impermeable liner placed inside the structure to stop water seeping through. Contractors used 2,900 square metres of that material to build the barrier.

Besides ensuring a reliable supply of renewable hydro power, construction of the dam also produced significant benefits for the North. NWT companies provided 43 per cent of goods and services for the project, half of which came from First Nations companies.

# Management Discussion and Analysis

The following Discussion and Analysis is intended to provide a historical and prospective analysis of Northwest Territories Power Corporation's (NTPC) fiscal 2013 financial performance. 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 Consolidated Financial Statements included in this report.

## NTPC Operations

NTPC has two wholly-owned subsidiaries, the NWT Energy Corporation Ltd. (NTEC) and 5383 N.W.T Ltd. (inactive). 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%) of one residual heat project in Fort McPherson.

### NTPC Description of Operations

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 two distributing utilities, which in turn, retail electricity to customers in Yellowknife and the Hay River area. NTPC's facilities include hydroelectric, diesel, and natural gas generation plants, as well as transmission systems and numerous isolated electrical distribution systems. NTPC also owns and operates alternative energy assets used for the supply of residual heat and solar power.

NTPC's systems serve a population of approximately 43,000 located in an area of 1.3 million square kilometres. The insert map (reference Figure1) illustrates the operating area of NTPC and highlights the isolation of many of the communities that NTPC serves – some accessible only by air, barge, or winter road.

The peak electrical load is approximately 62 MW, with isolated power systems with generating capacities ranging from 64 MW at Snare Yellowknife to 230 kW at Jean Marie River and Nahanni Butte. With the exception of two grids, in the North and South Great Slave areas these systems are unconnected and each must be planned for and operated independently.

*Figure 1 – NTPC Operating Area*

# Strategies and Objectives for fiscal 2013

**NTPC**

The current strategy for NTPC is one of supporting economic development while focusing on the core business and three fundamental concepts that are referred to as our pillars and inherent to the business NTPC operates as well as its customers' needs. These pillars are:

1. Reliability
2. Cost Effectiveness
3. Meeting Commitments

By focusing on these three fundamental needs of our customers, not only will NTPC bring value to its customers but also its shareholder.

The Board of Directors' goals will be met through achievement of excellence in the core strategic elements of Employee Excellence, Operational Excellence, Customer Service Excellence, and Financial Excellence. Obtaining excellence in any one element relies to a large extent on excellence achieved in the preceding element.

NTPC's strategy elements are summarized as follows:

## Employee Excellence

Strengthen the Corporation by emphasizing employee development and safety while encouraging and supporting a workplace where employees are engaged, aligned, collaborative, and feel valued and recognized for their efforts.

## Customer Service Excellence

Providing excellent value and service to our customers, while delivering reliable service and ensuring public safety.

## Operational Excellence

Strengthen the Corporation by emphasizing effective and efficient use of our assets, while using well thought-out planning and execution. Industry-leading practices are to be utilized to achieve top quartile performance.

## Financial Excellence

Efficient use of our resources and information so as to ensure the financial health of the Corporation is maintained.

In addition to profitability, NTPC sets a number of performance indicators designed to measure and manage certain aspects of corporate performance and financial position. Following is a summary of those indicators:

| Performance Indicator | Entity | 2013 Results | 2012 Results |
|---|---|---|---|
| *Current Ratio* | *NTPC* | *1.18* | *.82* |
| *Capitalization ratio (debt is net of sinking fund balances)* | *NTPC* | *62/38* | *60/40* |
| *Plant Efficiency (kWh per litre fuel)* | *NTPC* | *3.51* | *3.56* |
| *Operating Expenses/MWh sold ($)* | *NTPC* | *$266* | *$252* |
| *Operating Expenses (excluding fuel and amortization)/MWh sold ($)* | *NTPC* | *$113* | *$114* |
| *Safety – Average lost workdays per 200,000 hours worked* | *NTPC* | *9* | *25* |
| *System Availability* | | | |
| *Outage hours/customer* | *NTPC* | *6.58* | *4.08* |
| *Average outage time (minutes)* | | *40* | *25* |

NTPC's current ratio improved significantly as a result of converting short-term to long-term debt, and a decrease in accounts payable due to the completion of the Bluefish project. The capitalization ratio changed because of the issuance of new long-term debt (discussed further below). Operating expense per MWh sold was higher due to increased fuel and amortization expense arising from a general rate application in 2013 (discussed further below). Our safety indicator improved with lower work-related accidents due in part to our increased safety awareness campaigns and diligence.

System availability declined in 2013 because of higher than expected line faults in the Snare transmission system and the flood in Nahanni Butte.

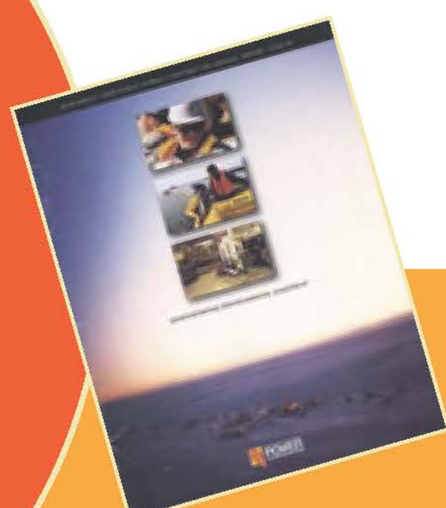
The remaining indicators have marginal year-over-year changes as expected.

## 1999

NTPC became truly northern owned with repayment of $53 million debt to the GNWT.

Creation of Nunavut, April 1, 1999. The Corporation continued to supply both the NWT and Nunavut under a two-year transition plan.

NTPC signed a 15 year agreement to become the cornerstone customer for gas in the Town of Inuvik, bringing gas services to the rest of the community and commencing a multi-year transition of the plant from diesel to natural gas.



# Consolidated Financial Results

Significant changes in year-over-year operating results were recorded in fiscal 2013 because of NTPC filing a general rate application (GRA). This process involved updating fuel prices and bringing capital additions into rates among other adjustments. Areas of expenditure more controllable in nature, such as salaries and wages, supplies and services, and travel, saw increases in line with inflation since the last GRA. New rates were approved to address these additional costs.

## Operations

Net income for fiscal 2013 was $6.8 million compared with $4.1 million in fiscal 2012.

NTPC had electricity sales of $98.5 million in 2013 compared to $81.7 million in 2012. The GRA refundable riders accounted for approximately $5.2 million of the increase. A GNWT power revenue contribution of $11.6 million brought our total revenue in line with the revenue requirement sought for in the GRA. Year over year unit sales were constant with less than 1% growth in unit sales in 2013 over 2012.

Operating expenses were $83.2 million compared to $78.9 million in 2012. Increased fuel prices and increasing allowable amortization on regulated assets through the GRA process were the main reasons for the increase. NTPC also concluded Collective Agreement negotiations in fiscal 2013 and the new agreement, which provides wage increases in line with current inflation rates, will be in effect until December 2014.

Interest expense in 2013 was $10.1 million compared to $9.5 million in 2012. Lower capitalized interest during construction (IDC) accounted for the majority of the increase in net interest expense. IDC was lower because of the completion of many capital projects including the Bluefish dam replacement project during the year.

## Financing Activities

In 2013, NTPC borrowed $25 million in long-term debt at a rate of 3.818% and retired $20 million of 10.75% sinking fund debentures, bringing down the average cost of debt.

## Capital Expenditures

Each year, NTPC makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. Capital investment levels in 2013 were $23.7 million as compared to $29.0 million in 2012. The majority of projects were to maintain or improve reliability. The Bluefish dam construction project concluded on budget and on target in 2013. This project was the largest capital project in NTPC history, with a total budget of $37.4 million.

## Status of Transition to International Reporting Standards

Publically accountable enterprises were required to transition from Canadian GAAP to IFRS for fiscal years beginning on or after January 1, 2011. In February 2013, the CICA Accounting Standards Board (AcSB) extended the existing deferral of the mandatory adoption of IFRS for entities with qualifying rate-regulated activities by an additional year to January 1, 2015.

The extension is due to the International Accounting Standards Board (IASB)'s decision to restart its project on rate-regulated activities. The IASB is also planning to issue an interim IFRS standard on rate-regulated activities by the end of 2013 and the extension will provide first-time adopters of IFRS adequate time to prepare comparative figures based on a new interim IFRS standard.

Although Canadian GAAP and IFRS are based on a similar conceptual framework, there are a number of differences with respect to recognition, measurement, and disclosure. The areas with the highest potential to impact NTPC include property, plant and equipment, regulatory assets and liabilities, employee benefits, and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

NTPC qualifies for the deferral and intends to adopt IFRS for its fiscal year ending March 31, 2016. NTPC also continues to monitor and evaluate the impact of the adoption of IFRS on its accounting policies and systems and financial statements. To facilitate the conversion process, NTPC has assembled a project team and engaged external advisors. Regular reporting of the project's status is provided to NTPC's Audit and Efficiency Committee.

**2001**

On April 1 the assets of Northwest Territories Power Corporation were divided into two corporations: the Northwest Territories Power Corporation, which is wholly owned by the Government of NWT, and the Nunavut Power Corporation, which is wholly owned by the Government of Nunavut.



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## 2002

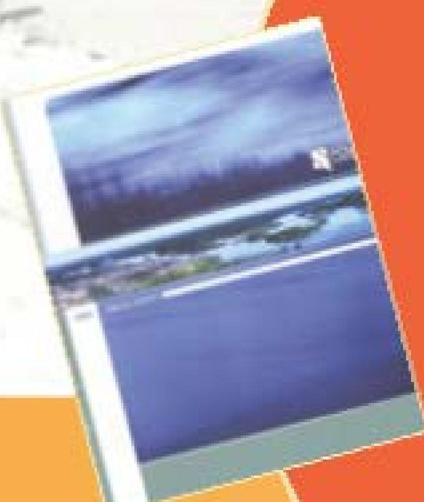
NTPC received the National Leadership Award for electric utilities for reduction in greenhouse gas emissions.

## 2003

NTPC purchased the Bluefish (7 MW) hydro plant from Miramar Con Mine, near Yellowknife.

## 2007

The Government of the Northwest Territories passed the NWT Hydro Corporation Act, creating the Northwest Territories Hydro Corporation (NT Hydro). The new corporate structure includes NTPC as one of three NT Hydro subsidiaries. Former subsidiaries of NTPC are now "sister companies" of the Corporation.



# Outlook for 2014 and Beyond

In 2014 NTPC will continue to focus on initiatives that support the strategic plan.

Safety will be a strong emphasis with material changes to our safety program elements, training on the program, and resources focused on achieving a Certificate of Recognition (COR).

To achieve top quartile performance among electric utilities we will be emphasizing skills upgrading and promoting a culture of continuous improvement. A number of initiatives will support further development of our employees and management team.

Reliable service is critical for success in the electricity business. The condition of our assets is fundamental to providing reliable power to customers and NTPC has taken steps to update the processes and procedures it uses for administering and maintaining its varied and widespread assets. Work will continue in this area in fiscal 2014 and beyond to ensure that we get the most out of our assets and that plans are in place for orderly replacement of assets as they age.

Cost containment is equally as important as reliability. By the end of fiscal 2014, NTPC expects to be using liquefied natural gas (LNG) to generate electricity in Inuvik. This project is the first of its kind in the NWT and is an important response to the loss of natural gas in this community. Other communities that are currently supplied by diesel generation will be investigated for LNG potential. Currently, diesel fuel is our largest expense and proving the viability of lower-cost LNG will go a long way to containing the cost of producing electricity in the NWT.

In 2014 customers can expect to see improvements in our services, starting with a new website that is currently under development and will emphasize information and tools for our customers to use to effectively manage their electricity accounts and consumption.

Looking out beyond 2014, NTPC is working with our Shareholder and our sister company, NT Energy to assess the potential for establishing a network grid that would link the existing hydro in the South and North Slave regions, and would interconnect to the southern Canada grid.

While still early in development, in theory, a grid would facilitate increased output from existing hydro and provide a source of electricity from other jurisdictions. This combination would open doors to economic development in the NWT and has significant potential to lower electricity costs for all customers. In the long term, a transmission grid could also open doors to future hydro development in the NWT, and create potential for export revenues.

In summary, NTPC continues to focus on improving its performance by developing a strong workforce, improving operational process and procedures, delivering quality customer service, and actively managing costs. Looking out beyond fiscal 2014, NTPC is working with the Shareholder to achieve long term energy sustainability in the NWT through a transmission grid that could be transformational to the future economic development of the NWT and greatly improve the viability of new renewable energy projects.

Respectfully submitted,

Judith Goucher
Chief Financial Officer

Auditor General of Canada
Vérificateur général du Canada

# 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, which comprise the consolidated balance sheet as at 31 March 2013, 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.

- 2 -

*Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Northwest Territories Power Corporation as at 31 March 2013, and the results of its 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 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 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 Auditor General of Canada

31 July 2013
Edmonton, Canada


## 2010

The GNWT issues rate guidelines that lead to a consolidation of rates from 25 to 6 zones.

## 2012

NTPC received notice that gas supply is ending in Inuvik and begins planning to convert the plant back to diesel generation.

Liquefied natural gas (LNG) is identified as a potential source of fuel for Inuvik and plans to convert back to diesel are altered in favour of a partial conversion and implementation of an LNG solution.

NORTHWEST TERRITORIES POWER CORPORATION

# Consolidated Financial Statements

## MARCH 31, 2013

**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** | **Judith Goucher** |
| President & CEO | Chief Financial Officer |

Hay River, NT
July 31, 2013

**NORTHWEST TERRITORIES POWER CORPORATION**

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

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 1,001 | $ 1,155 |
| Accounts receivable (Note 5) | 14,760 | 18,778 |
| Inventories (Note 6) | 5,511 | 4,162 |
| Net receivable from related parties (Note 25) | 5,456 | 4,402 |
| Prepaid expenses | 590 | 661 |
| Current portion of sinking fund investments (Note 8) | - | 20,000 |
| | 27,318 | 49,158 |
| Property, plant and equipment, net (Note 7) | 325,331 | 311,964 |
| Other non-current assets | | |
| Regulatory assets (Note 3) | 19,494 | 18,428 |
| Sinking fund investments (Note 8) | 5,676 | 5,052 |
| Intangible assets (Note 9) | 1,150 | 1,016 |
| | 26,320 | 24,496 |
| | $ 378,969 | $ 385,618 |
| **Liabilities and Shareholder's Equity** | | |
| Current liabilities | | |
| Short-term debt (Note 10) | $ 5,979 | $ 16,351 |
| Accounts payable and accrued liabilities | 14,688 | 21,551 |
| Dividends payable (Notes 22, 24) | 96 | 75 |
| Current portion of long-term debt (Note 11) | 2,298 | 22,184 |
| | 23,061 | 60,161 |
| Long-term debt | | |
| Long-term debt, net of sinking fund investments (Note 11) | 180,404 | 138,379 |
| Sinking fund investments presented as assets (Note 11) | 5,676 | 25,052 |
| Net lease obligation (Note 12) | 2,306 | 2,028 |
| | 188,386 | 165,459 |
| Other non-current liabilities | | |
| Regulatory liabilities (Note 3) | 36,153 | 39,537 |
| Asset retirement obligations (Notes 13, 14) | 12,224 | 7,388 |
| Deferred government contributions (Note 15) | 2,632 | 2,800 |
| Employee future benefits (Note 16) | 1,357 | 1,525 |
| | 52,366 | 51,250 |
| Shareholder's equity | 115,156 | 108,748 |
| | $ 378,969 | $ 385,618 |

Commitments and contingencies (Note 23)

*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, Vice-Chairman**

## NORTHWEST TERRITORIES POWER CORPORATION

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

| | 2013 | 2012 |
|---|---|---|
| **Revenues** | | |
| Sale of power | $ 81,723 | $ 81,690 |
| GNWT power sales contributions (Note 17) | 11,600 | - |
| Refundable rider revenues (Note 2) | 5,224 | - |
| Government contribution in lieu of fuel riders (Note 3) | - | 8,957 |
| Other revenues(Notes 18 , 21) | 1,363 | 1,644 |
| | 99,910 | 92,291 |
| **Expenses** | | |
| Fuels and lubricants (including offsetting fuel expenses of $8,957 (Note 3)) | 29,379 | 28,112 |
| Salaries and wages | 21,717 | 21,142 |
| Amortization (Note 19) | 18,486 | 15,225 |
| Supplies and services | 11,754 | 12,460 |
| Travel and accommodation | 1,897 | 1,974 |
| | 83,233 | 78,913 |
| Earnings from operations | 16,677 | 13,378 |
| Snare transmission line damages | - | (1,739) |
| Cost recovery | - | 1,739 |
| Interest income | 221 | 233 |
| Earnings before interest expense | 16,898 | 13,611 |
| Interest expense (Note 20) | 10,090 | 9,506 |
| **Net income** | **$ 6,808** | **$ 4,105** |

*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)**

| | 2013 | 2012 |
|---|---|---|
| **Net income** | $ 6,808 | $ 4,105 |
| **Other comprehensive income (loss)** | | |
| Reclassification adjustment for realized gains on sale of available-for-sale financial assets included in net income | - | (633) |
| Unrealized gains on available-for-sale financial assets arising during the year | - | 112 |
| Other comprehensive loss | - | (521) |
| **Comprehensive income** | $ 6,808 | $ 3,584 |

*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)**

| | 2013 | 2012 |
|---|---|---|
| **Share capital (Note 22)** | $ 43,129 | $ 43,129 |
| **Retained earnings** | | |
| Retained earnings at beginning of year | 65,619 | 62,014 |
| Net income | 6,808 | 4,105 |
| Dividends declared (Note 22) | (400) | (500) |
| **Retained earnings at end of year** | $ 72,027 | $ 65,619 |
| **Accumulated other comprehensive income** | | |
| Accumulated other comprehensive income at beginning of year | $ - | $ 521 |
| Other comprehensive loss | - | (521) |
| **Accumulated other comprehensive income at end of year** | $ - | $ - |
| **Shareholder's equity at end of year** | $ 115,156 | $ 108,748 |

*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)**

| | 2013 | 2012 |
|---|---|---|
| **Operating activities:** | | |
| Cash receipts from customers | $ 90,083 | $ 81,915 |
| Government assistance (Notes 3, 17, 21) | 15,553 | 5,304 |
| Cash paid to suppliers and employees | (80,848) | (60,970) |
| Interest received | 221 | 233 |
| Interest paid | (11,903) | (13,448) |
| Cash flows provided by operating activities | 13,106 | 13,034 |
| **Investing activities:** | | |
| Net (repayments) advances from related parties | (1,054) | 797 |
| Property, plant and equipment constructed or purchased | (23,661) | (29,075) |
| Cash flows used in investing activities | (24,715) | (28,278) |
| **Financing activities:** | | |
| Proceeds from issue of long-term debt (net of issue costs) | 24,847 | - |
| Repayment of long-term debt | (22,184) | (16,316) |
| Proceeds from sinking fund redemption | 20,031 | 15,751 |
| Net proceeds from (repayments of) short-term debt | (10,372) | 15,036 |
| Sinking fund instalments | (656) | (1,964) |
| Government (repayments) contributions (Note 15) | (110) | 1,567 |
| Dividend paid | (379) | (454) |
| Receipts from net lease obligation | 278 | 216 |
| Cash flows provided by financing activities | 11,455 | 13,836 |
| **Net decrease in cash** | (154) | (1,408) |
| **Cash at beginning of year** | 1,155 | 2,563 |
| **Cash at end of year** | $ 1,001 | $ 1,155 |

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

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

## 1. Authority and operation

The Northwest Territories Power Corporation (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. The Northwest Territories Hydro Corporation (NT Hydro) is the parent company and holds all of the common shares of NTPC. The GNWT owns one preferred share of NTPC (Note 22).

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 (Note 12). NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson (Note 26). 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. Significant accounting policies and future accounting changes

### (a) Significant 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 Public Utilities Board (PUB) of the Northwest Territories 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 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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

On March 23, 2012 NTPC filed a GRA with the PUB for the Test Years 2012/13 and 2013/14. Within this application, NTPC requested the PUB set rates based on a proposed revenue requirement of $102,500 in fiscal 2013 and $107,500 in fiscal 2014. The proposed revenue requirement includes a return on equity of 8.5% for the Test Years 2012/13 and 2013/14.

The allowed rate of return and all other aspects of the GRA were reviewed and tested by the PUB in fiscal 2013. On January 21, 2013, the PUB issued Decision 1-2013 which was the initial approval of NTPC's 2012/14 GRA. Decision 1-2013 approved a number of changes to the revenue requirement and normalized costs. The details of these changes to NTPC's normalized costs and treatment of capitalized interest during construction are disclosed in Note 3. The PUB uses cost of service regulation to regulate NTPC's earnings on a return on equity basis. Decision 1-2013 approved a return on equity for fiscal 2013 and fiscal 2014 of 8.5% on assets outside the thermal zone and 0% for thermal zone assets. The approved return on equity will remain in effect until it is reassessed at the time of the next GRA. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

As part of the GRA and Decision 1-2013, NTPC signed a contribution agreement with the GNWT to cover anticipated revenue shortfalls related to its General Rate Application. Contributions will be provided by the GNWT to NTPC to mitigate the impact of rate increases on customers over a three year period. The agreement specifies maximum contributions as follows:

2013 - $17,600 (including $2,000 of foregone dividends)
2014 - $11,400 (including $2,000 of foregone dividends)
2015 - $ 4,800 (including $2,000 of foregone dividends)

NTPC also filed an interim rate application (IRA) with the PUB on March 23, 2012. Since GRAs can take many months to complete, IRAs are designed to implement rates on a temporary and refundable basis while a GRA is reviewed. If the PUB's final decision indicates final rates should be higher or lower than interim rates, a refund or surcharge is applied to customers accordingly. NTPC's IRA proposed rate increases for all customer groups in all communities by 7.0%. On May 7, 2012 the PUB approved the IRA for the fiscal 2013, with interim rates effective for May 1, 2012.

Decision 1-2013 also directed NTPC to file a Compliance Filing Application reflecting the findings, directions and clarification requested in Decision 1-2013. NTPC filed the Compliance Filing on March 4, 2013 and a final decision from the PUB was received on July 9, 2013. See Note 27 for additional details.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. 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 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.

**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 3). Amortization is suspended when assets are removed from service for an extended period of time. Assets held for future use (critical spare parts) 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 Notes 13 and 14.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

Amortization rates are as follows:

| | % |
|---|---|
| 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 NTPC and by the PUB every three years as required by legislation. NTPC 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. NTPC filed a GRA in March 2012 and an amortization study was included as part of that filing. As per Decision 1-2013, rates resulting from that filing and the associated amortization rates are to be effective starting April 1, 2013.

**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.

**Public Service Pension Plan**

The employees of NTPC are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and NTPC to cover current service cost. Pursuant to legislation currently in place, NTPC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of NTPC.

**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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

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 3. 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.

**Government contributions**

The contributions approved for purchasing property, plant and equipment are recognized as a deferred government contributions on the balance sheet. Deferred government contributions are amortized into income on the same basis as the amortization of the related property, plant and equipment. Amortization of deferred government contributions are netted against amortization expense in the statement of operations. See Note 15 for additional details.

Restricted GNWT contributions for repayment of stabilization funds are recorded as a credit to the stabilization funds. As a result of these contributions, revenues have been recorded as government contributions in lieu of fuel rider revenues and an offsetting fuel rider expense has also been recorded on the statement of operations. See Note 3 for additional details.

All other government contributions are recognized as revenue in the year the contributions are spent. See Note 21 for additional details.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

**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 3.

**Financial instruments**

The financial instruments of NTPC include financial assets classified as held for trading or loans and receivables and financial liabilities classified 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, cash and short-term investments held in the sinking fund, derivatives and embedded derivatives as held for trading. These items are recorded at their fair value with gains and losses recorded in interest income (or interest expense if related to sinking funds).

*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 and net receivable from related parties 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.

*Other financial liabilities*
NTPC classifies its accounts payable, short-term debt, long-term debt and net lease obligation 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 and short-term debt, 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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

*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. Depending on the type of derivative, changes in fair value are recognized in either net income or to regulatory deferral accounts. There are no derivative contracts outstanding at the end of the year (2012 – nil).

**(b) Future accounting changes**

*International Financial Reporting Standards (IFRS)*

Publically accountable enterprises were required to transition from Canadian GAAP to IFRS for fiscal years beginning on or after January 1, 2011. In February 2013, the CICA Accounting Standards Board (AcSB) extended the existing deferral of the mandatory adoption of IFRS for entities with qualifying rate-regulated activities by an additional year to January 1, 2015.

The extension is due to the International Accounting Standards Board (IASB)'s decision to restart its project on rate-regulated activities. The IASB is also planning to issue an interim IFRS standard on rate-regulated activities by the end of 2013 and the extension will provide first-time adopters of IFRS adequate time to prepare comparative figures based on a new interim IFRS standard.

Although Canadian GAAP and IFRS are based on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact NTPC include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

NTPC qualifies for the deferral and intends to adopt IFRS for its fiscal year ending March 31, 2016. NTPC also continues to monitor and evaluate the impact of the adoption of IFRS on its accounting policies and systems and financial statements.

**3. 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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

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**

| | 2013 | 2012 | Remaining recovery period |
|---|---|---|---|
| Water licensing deferral account | $ 5,320 | $ 5,262 | Determined by PUB |
| Normalized overhaul costs | 4,634 | 5,487 | Determined by PUB |
| Regulated employee future benefits | 4,498 | 4,172 | Determined by PUB |
| Reserve for injuries and damages | 1,898 | 2,423 | Determined by PUB |
| Other regulatory assets | 1,513 | 634 | Determined by PUB |
| Regulatory costs | 1,170 | 450 | Determined by PUB |
| Rate stabilization funds | 461 | - | Determined by PUB |
| | $ 19,494 | $ 18,428 | |

**The total increase to net income resulting from rate regulation resulting from changes to the following accounts is as follows:**

| | 2013 | 2012 |
|---|---|---|
| Water licensing deferral account | $ 58 | $ 3,865 |
| Normalized overhaul costs | (1,294) | 1,653 |
| Regulated employee future benefits | 326 | 385 |
| Reserve for injuries and damages | (525) | (439) |
| Other regulatory assets | 879 | 237 |
| Regulatory costs | 720 | (65) |
| Rate stabilization funds | 461 | (3,685) |
| Reserve for future removal and site restoration | 4,973 | 1,551 |
| Deferred revenues | (1,664) | (586) |
| Capitalized fuel | (39) | (39) |
| Equity component of AFUDC | - | 1,014 |
| Net increase in net income due to rate regulation | $ 3,895 | $ 3,891 |

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

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. 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 Decision 1-2013, the PUB approved $751 (2012 from 2006/08 GRA - $137) to be included in annual expenses for this fund. Costs allocated to this account in fiscal 2013 totalled $809 (2012 - $4,002). 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 $58 (2012 – increase of $3,865).

**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 $1,137 (2012 - $2,860) and annual amortization expense would increase by $505 (2012 - $486) as a result of an increase in the balance of property, plant and equipment of $947 (2012 - $796). In Decision 1-2013, the PUB approved $2,936 (2012 - $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 2013 actual costs deferred to this account totalled $2,084 (2012 - $3,656). The net effect of rate regulation on net income was a decrease of $ 1,294(2012 – increase of $1,653).

**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 16). 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. In fiscal 2013 actual costs deferred to this account totalled $674 (2012 - $385). In Decision 1-2013, the PUB initiated amortization of this fund for the first time since its inception and approved $348 (2012 - $nil) to be included in annual expenses for this fund. The net effect of rate regulation on net income was an increase of $326 (2012 – increase of $385).

**Reserve for injuries and damages**

The reserve for injuries and damages includes costs for uninsured and uninsurable losses and insurance deductibles. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the types and size of emergencies during a given year. In Decision 1-2013, the PUB approved $670 (2012 - $670) to be included in annual expenses for this fund. In fiscal 2013 actual costs deferred to this account totalled $145 (2012 - $231). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed in the year they were incurred. The net effect of rate regulation on net income was a decrease of $525 (2012 – decrease of $439).

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

**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 $1,036 (2012 - $264) and annual amortization expense would decrease by $157 (2012 - $27). The net effect of rate regulation on net income was an increase of $879 (2012 – increase of $237).

**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 Decision 1-2013, the PUB approved $243 (2012 - $600) to be included in annual expenses for this fund. In fiscal 2013 actual costs deferred to this account totalled $963 (2012 - $535). The net effect of rate regulation on net income was an increase of $720 (2012 – decrease of $65).

**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 consolidated balance in the funds reaches +/- $2,500 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 a balance of $0. 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 2013 fuel expenses were deferred and consequently higher due to the differences in fuel prices of $290 (2012 – lower by $4,830) and lower due to the volume of available water generation of $739 (2012 – lower by $383). The net interest revenues accrued on the balance of the funds also decreased interest expense by $12 (2012 - $59).

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

In fiscal 2012 the GNWT made specified contributions of $8,957 to pay down the balance of the stabilization funds instead of NTPC applying a rate rider to recover the outstanding balance in the funds directly from customers. At the end of fiscal 2012, $3,856 of this balance was recorded in accounts receivable. In addition to offsetting the balances accumulated in the stabilization funds, these contributions were reported as rider revenue with an offsetting and equal charge to fuel expense in fiscal 2012. There were no similar contributions from the GNWT in fiscal 2013.

The net effect of rate regulation on net income was an increase of $461 (2012 – decrease of $3,685).

**Fuel rider revenues**

Fuel rider revenues with offsetting fuel expense:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Rider revenues | Associated fuel expense | Rider revenues | Associated fuel expense |
| GNWT contribution | $ - | $ - | $ 8,957 | $ 8,957 |
| Rate stabilization fund riders | - | - | - | - |
| | $ - | $ - | $ 8,957 | $ 8,957 |

**Regulatory liabilities**

| | 2013 | 2012 | Remaining settlement period |
|---|---|---|---|
| Reserve for future removal and site restoration | $ 29,628 | $ 34,601 | Determined by PUB |
| Deferred revenues | 6,525 | 4,936 | Determined by PUB |
| | $ 36,153 | $ 39,537 | |

**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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

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 2013 expenses would have been $1,842 (2012 - $725) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were $1,961 (2012 - $1,889) 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 13) 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 (Note 14) account balances recorded against the reserve for future removal and site restoration was a decrease in the account balance of $5,092 (2012 – decrease of $2,715). The net effect of rate regulation on net income is an increase of $4,973 (2012 – increase of $1,551).

**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 (Notes 7 and 19). 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 2 under Amortization. In fiscal 2013 revenues were $2,175 (2012 - $1,104) lower than they would have been and amortization on property, plant, and equipment was $511 (2012 - $518) 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 $1,664 (2012 – decrease of $586).

**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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 3. 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 NTPC'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 2013 (or 2012) in association with this project. Therefore fuel expense in fiscal 2013 (and 2012) was the same as it would have been in absence of rate regulation. Amortization expense was $39 (2012 - $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 (2012 – decrease of $39).

**Capitalized allowance for funds used during construction**

In Decision 1-2013, the PUB approved NTPC to capitalize costs incurred for interest during construction (IDC) based on the most recent PUB-approved IDC which is 6.540% for fiscal 2013. In fiscal 2012 NTPC capitalized an allowance for funds used during construction (AFUDC) instead of an IDC based on the most recent PUB-approved cost of capital which was 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 allows interest during construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore, the AFUDC as recorded by NTPC in fiscal 2012 was higher than it would have been in a non-regulated operation, as is the subsequent amortization of the capitalized equity component. Capitalized AFUDC and IDC is recorded as an offset to interest expense (Note 20). 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 in fiscal 2012 to determine the impact of amortization on net income.

In fiscal 2013 approximately $nil (2012 - $1,014) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's 2006/08 PUB-approved cost of capital structure. The net effect of rate regulation on net income is an increase of $nil (2012 – increase of $883).

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

## 4. Capital management

NTPC's capital structure as at March 31, 2013 and March 31, 2012 was as follows:

| | 2013 | 2012 |
|---|---|---|
| Long-term debt | $ 189,819 | $ 187,004 |
| Less: Sinking funds | 5,676 | 25,052 |
| Less: Unamortized premium, discount and issuance costs | 1,441 | 1,389 |
| Net long-term debt | 182,702 | 160,563 |
| Net lease obligation | 2,306 | 2,028 |
| Shareholder's equity | 115,156 | 108,748 |
| Less: AOCI | - | - |
| Adjusted shareholder's equity | 115,156 | 108,748 |
| Total capital | $ 300,164 | $ 271,339 |

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. NTPC'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 *Northwest Territories Power Corporation Act*. The amount of debt is also subject to the federally imposed borrowing cap on total GNWT debt of $800,000 under which NTPC is required to comply. NTPC complies with these external restrictions on its debt limits.

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 *Northwest Territories 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. NTPC 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. NTPC has set a long-term debt capitalization target of 50/50. The debt capitalization ratio for fiscal 2013 is 62/38 (2012 – 60/40).

NTPC's capital structure is approved by the PUB as part of the GRA process. NTPC'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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

## 5. Accounts receivable

The aging of accounts receivable was:

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Current (less than 28 days) | 29-90 days | Over 90 days | Total | Total |
| Utility | $ 10,916 | $ 937 | $ 1,054 | $ 12,907 | $ 11,686 |
| Non-utility | 2,229 | 8 | 822 | 3,059 | 7,820 |
| Allowance for doubtful accounts | - | - | (1,206) | (1,206) | (728) |
| | $ 13,145 | $ 945 | $ 670 | $ 14,760 | $ 18,778 |

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

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of the year | $ (728) | $ (361) |
| Receivables written off | 85 | 93 |
| Increase to allowance | (563) | (460) |
| Balance, end of the year | $ (1,206) | $ (728) |

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 25.

## 6. Inventories

| | 2013: | 2012 |
|---|---|---|
| Materials, supplies and lubricants | $ 5,206 | $ 3,981 |
| Fuel | 305 | 181 |
| | $ 5,511 | $ 4,162 |

Inventories are comprised of fuel and materials, supplies and lubricants used in the production of electricity. Production fuel inventory is only held by NTPC 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 23. Fuel held as inventory and then expensed in fiscal 2013 totalled $1,516 (2012 - $1,540). The supplies and services expenses reported in fiscal 2013 includes $1,112 (2012 - $1,099) of materials, supplies and lubricants held as inventory throughout the year. The majority of materials, supplies and lubricants are used by NTPC to make repairs, complete overhauls or generate electricity.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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**($000's)**

## 7. Property, plant and equipment

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | **Net book value** |
| Electric power plants | $ 264,794 | $ (68,081) | $ 196,713 | $ 162,998 |
| Transmission and distribution systems | 78,383 | (21,965) | 56,418 | 57,533 |
| Electric power plant under capital lease | 26,455 | (6,753) | 19,702 | 20,002 |
| Warehouse, equipment, motor vehicles and general facilities | 40,629 | (14,297) | 26,332 | 25,071 |
| Other | 7,636 | (5,276) | 2,360 | 1,662 |
| Other utility assets | 7,062 | (1,776) | 5,286 | 5,608 |
| Assets held for future use (critical spare parts) | 3,274 | - | 3,274 | 3,648 |
| | $ 428,233 | $ (118,148) | $ 310,085 | $ 276,522 |
| Construction work in progress | 15,858 | - | 15,858 | 35,442 |
| Impairment provision | (612) | - | (612) | - |
| | $ 443,479 | $ (118,148) | $ 325,331 | $ 311,964 |

Engineering and other direct overhead expenses allocated to assets placed in service during the year amounted to $3,444 (2012 - $3,565).

*Impairment provision*

In Decision 1-2013, the PUB determined that a group of distribution assets were not recoverable from customers through rates starting in fiscal 2013. As a result, an impairment provision of $612 has been recognized and included in amortization.

## 8. 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 20).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 25. NTPC realized a mark-to-market return of 0.96% (2012 – 5.20%) on the general portfolio of sinking fund investments.

In May 2012 $20,000 of the sinking fund balance was retired to offset the repayment of the May 2012 debenture and only two smaller sinking fund debentures remain. In anticipation of this reduced balance, in February 2012 the sinking fund policy was revised to reduce the investment risk of the portfolio and reduce administrative costs. The policy allows only Canadian fixed-income and short-term investments. Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. Fixed-income securities have investment grade credit.

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**Note 8. Sinking fund investments (continued)**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | 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 | $ 5,676 | 0.96% | $ 25,052 | 0.90% |
| Less: current portion | - | | 20,000 | |
| | $ 5,676 | | $ 5,052 | |

[1] Rate of return is calculated on market yield for cash and fixed-income securities.

**9. Intangible assets**

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | **Net book value** |
| Enterprise software | $ 3,129 | $ (1,979) | $ 1,150 | $ 1,016 |

**10. 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.

| | **2013** | **2012** |
|---|---|---|
| Bankers acceptances and bank overdraft | $ 5,979 | $ 16,351 |

In fiscal 2013 short-term debt at March 31, 2013 is only comprised of a bank overdraft balance. The short-term debt outstanding at March 31, 2012 had a weighted average 30 day term and a 2.25% weighted average annual interest rate.

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### 11. Long-term debt, net of sinking fund investments

| | 2013 | 2012 |
|---|---|---|
| 5.16% amortizing debenture, due September 13, 2040 | $ 49,201 | $ 50,000 |
| 5.443% debenture, due August 1, 2028 | 25,000 | 25,000 |
| 5.995% debenture, due December 15, 2034 | 25,000 | 25,000 |
| 3.818% debenture, due November 25, 2052 | 25,000 | - |
| 5% debenture, due July 11, 2025 | 15,000 | 15,000 |
| 6.83% amortizing debenture, due December 18, 2032 | 13,333 | 14,000 |
| 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 | 6,774 | 7,021 |
| 9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of $69 | 5,932 | 6,165 |
| 10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of $70 | 5,879 | 6,118 |
| 10.75% sinking fund debentures, due May 28, 2012 | - | 20,000 |
| | $ 189,819 | $ 187,004 |
| Less: Unamortized premium, discount and issuance costs | 1,441 | 1,389 |
| | 188,378 | 185,615 |
| Less: Current portion | 2,298 | 22,184 |
| | 186,080 | 163,431 |
| Less: Sinking fund investments (Note 8) | 5,676 | 25,052 |
| Long-term debt, net of sinking fund investments | $ 180,404 | $ 138,379 |

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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Principal repayments | $2,298 | $2,414 | $2,544 | $2,691 | $2,847 |
| Sinking fund investment contributions | $ 780 | $ 780 | $ 780 | $ 780 | $780 |

### 12. 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 $17,570 (2012 - $18,191). 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 $19,598 (2012 - $20,003).To reflect the effective acquisition and financing nature of the lease, the plant is included in electric power plants in property, plant and equipment (Note 7).

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**Note 12. Net lease obligation (continued)**

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of $2,028 (2012 - $1,812). The current portion of the net lease obligation is a receipt of $278 (2012 - $216) 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.

Subsequent to March 31, 2013 there was a security change in the net lease obligation arrangement. See Note 27 for additional details. The change in the security does not impact the financial results of the net lease obligation arrangement.

Fair value information for the net lease obligation is included in Note 25.

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

| **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|
| $347 | $423 | $506 | $597 | $698 |

## 13. Asset retirement obligations

| | | **2013** | | **2012** |
|---|---|---|---|---|
| Balance, beginning of the year | $ | 7,388 | $ | 4,674 |
| Liabilities settled | | (815) | | (576) |
| Accretion expense | | 322 | | 174 |
| Valuation adjustment | | 4,991 | | 2,695 |
| Additions | | 338 | | 421 |
| Balance, end of the year | $ | 12,224 | $ | 7,388 |

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 - $28,306 (2012 - $21,380)
- 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 5.50% for those obligations identified prior to fiscal 2013 and 3.90% for those obligations identified in fiscal 2013

## 14. Environmental liabilities

NTPC estimates that it would cost approximately $20,891 (2012 - $14,802) to clean up the environmentally contaminated soil at its 27 sites in the NWT. The discounted present value of these obligations is $8,632 (2012 - $4,144) and is included in asset retirement obligations.

**NORTHWEST TERRITORIES POWER CORPORATION**

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**Note 14. Environmental liabilities (continued)**

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 recorded in these financial statements for a potential recovery from the Government of Canada.

## 15. Deferred government contributions

Following is a summary of net deferred government contributions:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Balance, beginning of the year | $ | 2,800 | $ | 2,103 |
| Eligible funding | | 288 | | 892 |
| | | 3,088 | | 2,995 |
| Amortization for the year | | (200) | | (195) |
| Contributions recognized related to asset disposals | | (256) | | - |
| Balance, end of the year | $ | 2,632 | $ | 2,800 |

In fiscal 2013 the GNWT signed a one-year capital contribution agreement for $250 with NTPC for capital project funding assistance for the expansion of the photovoltaic generation system in Ft. Simpson. As of March 31, 2013, eligible costs incurred were $331. There is $50 owing to NTPC by the GNWT under this agreement at the end of the year. Total project costs of $331 were capitalized during the year.

There was also $38 of funding additions related to eligible spending in fiscal 2012 for fiscal 2012 contribution agreements that was received and recorded by NTPC in fiscal 2013.

## 16. Employee future benefits

a) Public Service Pension Plan Contributions:

The employees of NTPC are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and NTPC.

The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The employer contribution rate effective at the end of the year was 1.64 times employees' contributions (2012 – 1.74 times). Total contributions of $2,737 (2012 - $2,833) were recognized as expense in the current year.

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**Note 16. Employee future benefits (continued)**

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

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

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accrued benefit obligation, beginning of the year | $ | 1,938 | $ | 2,120 |
| Net increase in obligation for the year | | 650 | | 385 |
| Benefits paid during the year | | (646) | | (567) |
| Accrued benefit obligation | | 1,942 | | 1,938 |
| Less: current portion | | (585) | | (413) |
| Accrued benefit obligation, end of the year | $ | 1,357 | $ | 1,525 |

## 17. GNWT power sales contributions

In fiscal 2013, NTPC signed a contribution agreement with the GNWT to provide a direct operating subsidy (cash contribution) to retire the balance in NTPC's Consolidated Fuel Stabilization Fund at March 31, 2012 to mitigate the impact of the revenue requirement changes on customers and to ensure a transition from current rates to final approved rates, over a 3 year period from fiscal 2013 to fiscal 2015. Under the agreement the GNWT provided $15,600 to NTPC in fiscal 2013. $4,000 paid down the receivable set up by NTPC as at March 31, 2012 to retire the Consolidated Fuel Stabilization Fund. The remaining $11,600 was recorded as revenues. All of the funding for fiscal 2013 was received in fiscal 2013. See *Rate regulation* under Note 2 for additional details.

## 18. Other revenues

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Connection fees | $ | 350 | $ | 349 |
| Contract work | | 305 | | 570 |
| Pole rental | | 272 | | 247 |
| Heat revenues | | 222 | | 214 |
| Miscellaneous | | 121 | | 88 |
| | $ | 1,270 | $ | 1,468 |

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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## 19. Amortization

| | 2013 | 2012 |
|---|---|---|
| Property, plant and equipment | $ 13,837 | $ 12,329 |
| Regulatory assets | 5,104 | 3,127 |
| Intangible assets | 267 | 287 |
| Deferred revenues (Note 3) | (722) | (518) |
| | $ 18,486 | $ 15,225 |

## 20. Interest expense

| | 2013 | 2012 |
|---|---|---|
| Interest on long-term debt | $ 13,064 | $ 15,216 |
| Short-term debt financing costs | 328 | 410 |
| Income from sinking fund investments | (76) | (1,561) |
| Income on loan receivable (Note 12) | (1,719) | (1,776) |
| Capitalized interest during construction | (1,507) | - |
| Capitalized allowance for funds used during construction | - | (2,783) |
| | $ 10,090 | $ 9,506 |

## 21. Other government contributions

The GNWT provided $15 (2012 - $68) of funding to NTPC to offset costs incurred in its rate review program and a further $5 (2012 - $nil) to offset a geotechnical evaluation for Jean Marie River for a proposed solar array.

The GNWT also provided $78 of additional funding to NTPC to offset costs incurred in fiscal 2012 that were over and above amounts established under the contribution agreements.

Total assistance received from all sources was $93 (2012 - $176). Funding receivable as at March 31, 2013 is $15 (2012 - $18).

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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## 22. Share capital

| | Number of shares | 2013 | Number of shares | 2012 |
|---|---|---|---|---|
| **Preferred shares** | | | | |
| Authorized: | | | | |
| One preferred share, non-cumulative, without par value | | | | |
| Issued and outstanding: | | | | |
| 1 preferred share (one dollar) | 1 | $ - | 1 | $ - |
| **Common shares** | | | | |
| Authorized: | | | | |
| Unlimited number of voting common shares without par value | | | | |
| Issued and outstanding: 431,288 common shares | 431,288 | $ 43,129 | 431,288 | $ 43,129 |

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

NTPC declared dividends totalling $400 (2012 - $500) payable to NT Hydro.

## 23. Commitments and contingencies

### Capital projects

In March 2013, the Board of Directors approved a capital plan for 2014 of $28,384 (2012 - $22,860) which includes the costs to complete projects already in progress at March 31, 2013.

### Natural gas purchase commitment

NTPC has an agreement to purchase natural gas to produce electricity in Inuvik. In September 2011 NTPC received a letter from the gas supplier, which is a partnership of IKHIL Resources Ltd., Altagas Marketing Inc. and IPL Holdings Inc., providing notice that the gas supply in the Inuvik Gas Reservoir was limited and unlikely to last to the end of the contract period. NTPC reduced its consumption of natural gas in a good faith attempt to extend the supply of gas to the residents of Inuvik so that alternative gas supplies could be pursued.

NTPC also agreed to forgo its legal remedies for the partnership's inability to supply its full obligations as outlined in the agreement on the basis that the partnership agreed to not enforce the minimum purchase clause within that agreement or any damages against NTPC for not consuming gas.

Since January 2012 gas generation has been significantly curtailed – running approximately 18% the first six months and 2% the last six months of 2013. The remainder of the generation is produced by the diesel plant. In fiscal 2013, gas represented 9% of the fuel used for power generation in Inuvik.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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**Note 23. Commitments and contingencies (continued)**

**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, the GNWT fuel tax rate and the amount of fuel purchased by NTPC from PPD in a given year.

**Other**

Refer to Notes 12, 13, 14 and 15 for other commitments and contingencies disclosed elsewhere in these consolidated financial statements.

## 24. 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:

| | 2013 | 2012 |
|---|---|---|
| **Transactions during the year:** | | |
| Sale of power and other | $21,990 | $ 20,197 |
| Purchase of fuel from GNWT | 26,090 | 16,398 |
| Other purchases and payments | 1,198 | 1,544 |
| Dividend declared to NT Hydro | 400 | 500 |
| Fuel tax paid to GNWT | - | 155 |
| GNWT refunded deposit for purchase of land and building | - | 2,043 |
| **Balances at year-end:** | | |
| Accounts payable to PPD | 2,191 | 7,298 |
| Accounts receivable | 1,611 | 5,606 |
| Dividend payable to NT Hydro | 96 | 75 |
| Accounts payable, accrued liabilities and derivatives | 29 | 62 |

As of November 2011, NTPC no longer remits Territorial fuel tax to the GNWT. It pays the tax directly to its suppliers.

NORTHWEST TERRITORIES POWER CORPORATION

**Notes to the Consolidated Financial Statements**
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## 25. Financial instruments

### Risks – overview

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

| | | Risks | | | | |
|---|---|---|---|---|---|---|
| | | | | Market risks | | |
| **Financial instrument** | **Classification** | **Credit** | **Liquidity** | **Currency** | **Interest rate** | **Other price** |
| **Measured at cost or amortized cost** | | | | | | |
| Accounts receivable | Loans and receivables | X | | | | |
| Accounts payable | Other financial liabilities | | X | X | | |
| Long-term debt | Other financial liabilities | | X | | X | |
| Net lease obligation | Other financial liabilities | X | X | | X | |
| Short-term debt | Other financial liabilities | | X | | X | |
| **Measured at fair value** | | | | | | |
| Cash | Held for trading | X | | | | |
| Short-term investments | Held for trading | X | | X | X | |

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.

| | 2013 | 2012 |
|---|---|---|
| Sinking fund short-term investments | $ 5,676 | $ 25,052 |
| Snare Cascades loan receivable | 17,570 | 18,192 |
| Accounts receivable | 14,760 | 18,778 |
| Receivable from related parties | 5,456 | 4,565 |
| Cash | 1,001 | 1,155 |
| | $ 44,463 | $ 67,742 |

*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.

*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-seven percent (2012 - 36%) of NTPC's sales are to two other utilities. Eleven percent (2012 - 11%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 5 analyzes the age of customer accounts receivable.

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**Note 25. Financial instruments (continued)**

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

| | 2013 | 2012 |
|---|---|---|
| Receivable from NT Hydro for transfer of investment in NTEC(03) and SEL | $ 4,565 | $ 4,565 |
| Short-term receivable (payable) to NT Hydro | 292 | (163) |
| Short-term receivable from NTEC(03) | 599 | - |
| | $ 5,456 | $ 4,402 |

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.

Short-term receivable (payable) to 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.

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

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.

*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.

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 NTPC 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**
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**Note 25. 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, 2013:

| Timeframe | Dollar value 2013 | Dollar value 2012 |
|---|---|---|
| Less than 1 year | $ 2,293 | $ 35,678 |
| Greater than 1 year and not later than 6 years | 23,516 | 12,791 |
| Greater than 6 years and not later than 20 years | 93,346 | 103,484 |
| Greater than 20 years | 70,732 | 48,612 |
| | $ 189,887 | $ 200,565 |

c) Currency risk

*Accounts payable*
NTPC is exposed to currency risk by purchasing supplies and property, plant and equipment in U.S. dollars. NTPC 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.

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 NTPC'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 NTPC 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.

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.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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**Note 25. Financial instruments (continued)**

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.

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 NTPC'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. 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. NTPC has an engine purchase contract denominated in Euros that is priced in Canadian dollars at the time of the invoice. The invoice date and Euro amount was used to determine the currency risk exposure.

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. For fiscal 2012 and 2013, all of NTPC's gains and losses have been realized. Short-term interest expense and revenue will vary throughout the year.

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 10%** | | **Interest rate risk 25 basis points** | | **Other price risk 10%** | |
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Net income | $129 | $25 | $21 | $531 | $- | $60 |
| Other comprehensive income | - | - | - | - | - | - |

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
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**Note 25. Financial instruments (continued)**

g) Fair value determination

The carrying value of cash, accounts receivables, net receivable from related parties, accounts payable and accrued liabilities and short-term debt approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of sinking fund investments were determined by using published price quotes. The fair value determination for 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.

As at March 31, 2013, the fair value and carrying value of NTPC's financial instruments are:

| | Level | Fair value | | Carrying value | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| **Held for trading financial assets** | | | | | |
| Cash | Level 1 | $ 1,001 | $ 1,155 | $ 1,001 | $ 1,155 |
| Short-term investments | Level 1 | 5,676 | 25,052 | 5,676 | 25,052 |
| | | $ 6,677 | $ 26,207 | $ 6,677 | $ 26,207 |
| **Other financial liabilities** | | | | | |
| Long-term debt | Level 2 | $ 241,788 | $ 237,792 | $ 189,819 | $ 185,615 |
| Net lease obligation | Level 2 | 6,574 | 6,024 | 2,028 | 1,812 |
| | | $ 248,362 | $ 243,816 | $ 191,847 | $ 187,427 |

h) Impairment

NTPC assesses the decline in the value of the individual investments for impairment to determine whether the decline is other than temporary. NTPC 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, 2013, NTPC provided an allowance for doubtful accounts of $1,206 (2012 - $728) for some of its accounts receivable accounts with amounts outstanding longer than 90 days. NTPC does not consider any other financial instrument to be impaired (2012 - $nil).

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

## 26. Investments in joint ventures

Included in NTPC's consolidated 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:

| | 2013 | 2012 |
|---|---|---|
| Other revenues | $ 119 | $ 98 |
| Operating expenses including amortization | 51 | 34 |
| Net income | $ 68 | $ 64 |
| | | |
| Current assets | $ 250 | $ 145 |
| Non-current assets | 455 | 479 |
| | $ 705 | $ 624 |
| | | |
| Current liabilities | $ 27 | $ 14 |
| Shareholder's equity | 678 | 610 |
| | $ 705 | $ 624 |
| | | |
| Cash flows provided by operating activities | $ 13 | $ 88 |
| Cash flows provided by investing activities | - | - |
| Cash flows used in financing activities | - | - |

## 27. Subsequent events

Following are significant events occurring after March 31, 2013:

### Net lease obligation

Subsequent to March 31, 2013, there was a security change made in the lease/loan agreement between DPC and NTEC. In 1996 when the lease/loan agreement was signed, DPC granted first charge to NTEC over the lands, all buildings and all improvements pledging the assets as collateral for the loan. DPC also established a Sinking Fund Trust Agreement. Under this agreement, DPC deposited a portion of the monthly lease payments received by DPC from NTPC, into a sinking fund. This sinking fund was used as collateral and to assist with the loan payments made to NTEC from 2014 to 2026. The fund was invested in a Government of Canada Treasury Bill. The Terms of the Sinking Fund Agreement allowed DPC to replace the sinking fund with another form of security if all the parties agreed.

After March 31, 2013 DPC, with the approval of NTEC, withdrew the funds from the sinking fund. A $4 million guarantee from DPC's parent company, the Tlicho Investment Corporation ("TIC") was provided as replacement collateral for the loan from NTEC to DPC. A blocked account agreement was also established as collateral for the loan. The blocked account agreement assigns certain cash flows to be deposited into a bank account each month. This account is used as additional collateral for the NTEC loan to DPC. NTEC has signing authority and full control over the blocked account. At the beginning of each fiscal year, the balance in the blocked account must be equal to the top up payments required for the next 12 months. The top up payment is the difference between the loan payment made by DPC to NTEC and the lease payment received by DPC from NTPC.

**NORTHWEST TERRITORIES POWER CORPORATION**

**Notes to the Consolidated Financial Statements**
**For the year ended March 31, 2013**
**($000's)**

**Note 27. Subsequent events (continued)**

**Rate regulation**

On July 9, 2013 the PUB issued Decision 9-2013, the PUB ruling on the NTPC's Compliance Filing related to the 2012/14 GRA. There were no significant changes to NTPC's financial statements as a result of this Decision. Decision 9-2013 confirmed the assumptions made by management in preparing these financial statements.

**28. Comparative figures**

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

# Consolidated Financial Summary (unaudited)

## Summary Statements of Operations *(unaudited)* for the five years ended March 31, 2013 ($000's)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Summary Statements of Operation:** | | | | | |
| Sale of power | $ 86,947 | $ 81,690 | $ 81,700 | $ 81,572 | $ 82,768 |
| GNWT power sales contributions | 11,600 | 8,957 | - | - | - |
| Other revenues | 1,363 | 1,644 | 1,223 | 1,508 | 1,274 |
| | 99,910 | 92,291 | 82,923 | 83,080 | 84,042 |
| Fuel and lubricants | 29,379 | 28,112 | 18,852 | 19,054 | 19,598 |
| Salaries and wages | 21,717 | 21,142 | 21,147 | 19,851 | 18,874 |
| Supplies and services | 11,754 | 12,460 | 13,229 | 13,429 | 12,464 |
| Amortization | 18,486 | 15,225 | 14,719 | 14,145 | 13,304 |
| Travel and accommodation | 1,897 | 1,974 | 2,229 | 2,145 | 2,617 |
| | 83,233 | 78,913 | 70,176 | 68,624 | 66,857 |
| Earnings from operations | 16,677 | 13,378 | 12,747 | 14,456 | 17,185 |
| Interest income | 221 | 233 | 275 | 478 | 970 |
| Earnings before interest expense | 16,898 | 13,611 | 13,022 | 14,934 | 18,155 |
| Interest Expense | 10,090 | 9,506 | 9,003 | 8,854 | 10,954 |
| Net earnings | $ 6,808 | $ 4,105 | $ 4,019 | $ 6,080 | $ 7,201 |

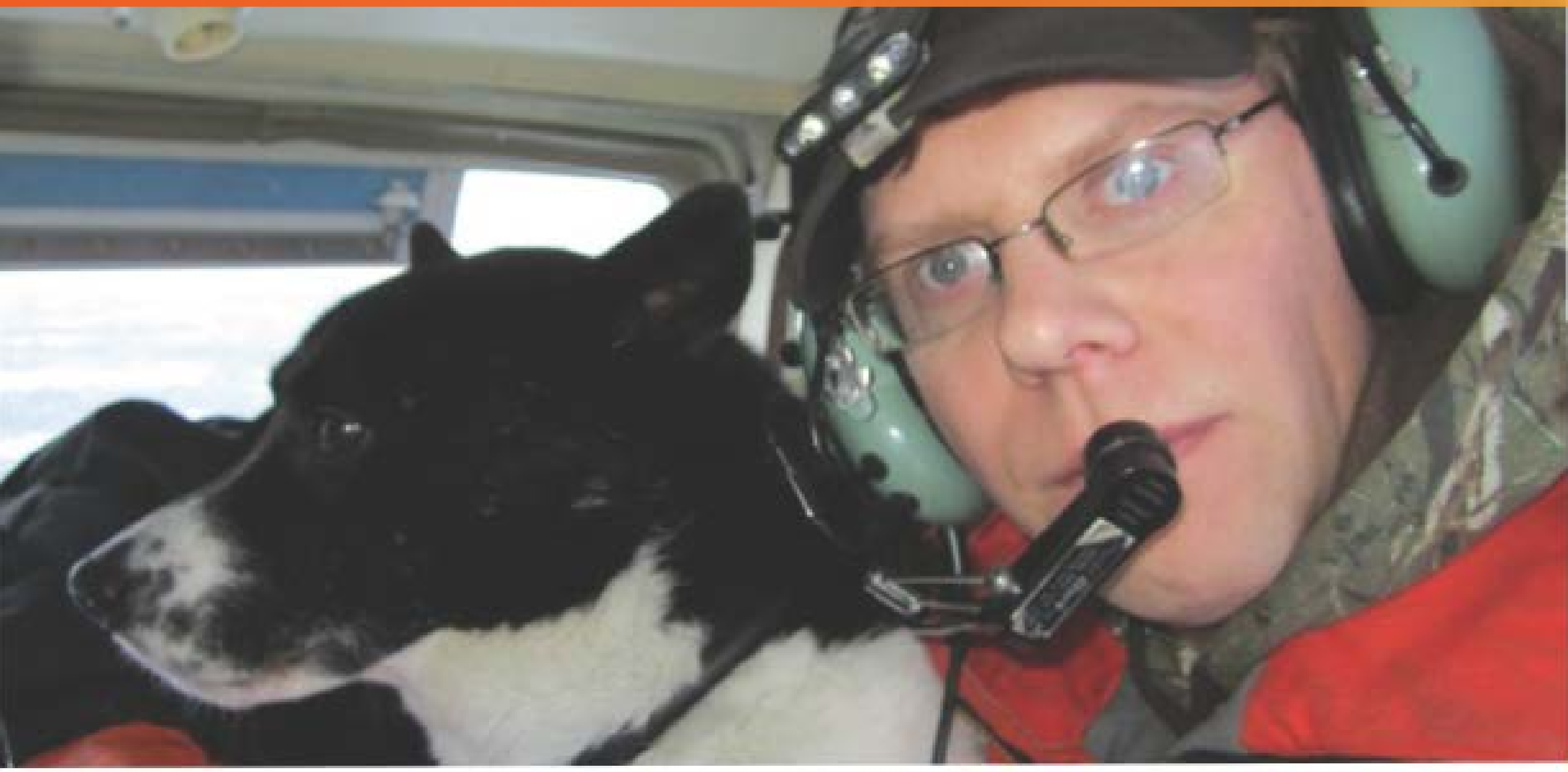
## Summary Balance Sheets *(unaudited)*
## for the five years ended March 31, 2013 ($000's)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Summary Balance Sheets:** | | | | | |
| Property, plant and equipment | $ 309,473 | $ 276,522 | $ 269,871 | $ 258,434 | $ 252,997 |
| Capital work in process | 15,858 | 35,442 | 19,207 | 16,366 | 9,270 |
| | 325,331 | 311,964 | 289,078 | 274,800 | 262,267 |
| Current assets | 27,318 | 49,158 | 43,809 | 29,722 | 38,478 |
| Other long term assets | 26,320 | 24,496 | 44,961 | 60,096 | 53,936 |
| | $ 378,969 | $ 385,618 | $ 377,848 | $ 364,618 | $ 354,681 |
| Current liabilities | $ 23,061 | $ 60,161 | $ 35,466 | $ 60,628 | $ 55,013 |
| Long term debt | 188,386 | 165,459 | 187,320 | 153,653 | 154,674 |
| Other long term liabilities | 52,366 | 51,250 | 49,398 | 47,466 | 45,950 |
| Total liabilities | 263,813 | 276,870 | 272,184 | 261,747 | 255,637 |
| Shareholder's equity | 115,156 | 108,748 | 105,664 | 102,871 | 99,044 |
| | $ 378,969 | $ 385,618 | $ 377,848 | $ 364,618 | $ 354,681 |
| **Capital expenditures** | $ 23,661 | $ 29,075 | $ 21,915 | $ 25,305 | $ 15,236 |


## 2013

NTPC's 25th anniversary as a wholly-owned crown corporation of the Government of the Northwest Territories.

# In Memoriam - Michael Dunn



Michael Dunn, 42, is fondly remembered by family, friends and colleagues as an avid outdoorsman who most enjoyed being with family, his wide circle of friends and his faithful three-legged companion, Peyto Bill.

Michael was a plant operator at the Bluefish hydro site, and he was employed by NPTC for two and one-half years.

Michael is survived by his fiancé, Bonnie Leonardis, two step-daughters, Giovanna and Julia Leonardis, his daughter, Isabel Scott, his brother, Kevin, also an NTPC employee, and his parents, Sheila and Peter Dunn.

n, a streamlined hydroelectric plant, than 300 miles from the Arctic Sea, is the advance of industrial progress he northland. Straddling Snare River r its mouth on Great Slave Lake, the n and power station provide continuous ctric power for the fabulous and fast-owing community of Yellowknife, where ld mining and its related trades have at-acted 4000 persons.

This newest northland installation aug-nents by almost 200 percent an older for sev... Blue Fish Lake, ab... Yellowknife. The Snare Rive... ment, with its peak output of 9500 horse-power, will, in aiding the growth of the area's mining industry, help to bring about a need for even greater power facilities as industry spreads over the stretches of stunted woodland that separate the dam from its "market," Yellowknife.

That mining center is undergoing a met-amorphosis from a primitive, "hell roar-

Tractor-train pulls into Yellowknife after snaking its way across the frozen surface of Great Slave Lake. The trip took more than a week

# 2012–2013 Annual Report

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