



Annual Report

2010 - 2011



NORTHWEST TERRITORIES
HYDRO
CORPORATION



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Message from the Chair

Brendan Bell

The Northwest Territories Hydro Corporation (NT Hydro) encompasses the Northwest Territories Power Corporation, the Northwest Territories Energy Corporation (03) Ltd., and Sahdae Energy. Together, these companies work closely with the Government of the Northwest Territories to make sure the Northwest Territories has access to clean, affordable power both now and for the future.

One of the NT Hydro companies, the NWT Power Corporation, is regulated by the Public Utilities Board and generates and delivers safe, reliable power to NWT residents and corporate customers.

The unregulated companies within NT Hydro work on behalf of the Government of the Northwest Territories to explore ways to develop local, affordable, and renewable power in the NWT.

Most of the existing hydro infrastructure in the NWT is a direct result of federal and private sector investment to support resource development in the north. This investment created a legacy of renewable power that continues today. NT Hydro is working to build on this legacy through the development of the NWT's extensive hydro and renewable energy potential. We envision a future of the NWT that includes more hydro energy, but also explores the potential of wind energy in the north, biomass potential in the south, geothermal energy and solar energy to power NWT communities and industry. We have a plan, and we're working to achieve it.

Looking Ahead

The Northwest Territories Hydro Corporation will continue to work in partnership with Aboriginal governments, communities and the

Government of the Northwest Territories to identify, assess the potential of, and develop viable renewable energy projects. At the same time we will continue to generate and deliver safe, sustainable power for northerners at the lowest cost possible through the work of the NWT Power Corporation.

Throughout 2012 we will be working to be more open and responsive to the concerns of our customers. We want you to get to know us better through the people behind the NT Hydro Group: individuals who care as deeply as you do about energy we need and use today and the energy that will power the future.

Brendan Bell

Northwest Territories Hydro Corporation Chairman





Vision, Mandate, Goals

Vision

An energy self-sufficient NWT, producing minimal greenhouse gas emissions with optimum development and marketing of NWT renewable energy resources.

Mandate

To plan and develop cost-effective, safe and environmentally responsible energy projects to serve existing and new energy requirements to the benefit of the NWT.

Goals

- To make a major contribution to development of new energy sources in the NWT.
- To be proactive in embracing and developing renewable energy technology.
- To provide energy on a timely and competitive basis to serve new energy demand.
- To be capable of managing and delivering large-scale energy generation and related transmission projects.
- To have completed construction and started operating at least one significant hydroelectric project on time and within budget.
- To be a recognized leader in partnering on energy projects with Aboriginal organizations and communities.
- To be profitable and financially strong and capable of generating wealth for the shareholder, partners and NWT residents.
- To pursue opportunities and development that is consistent with an integrated power grid in the NWT.
- To be an exporter of energy where the benefits of such export primarily accrue to the NWT.
- To make a major contribution to the energy self-sufficiency of the NWT.
- To be a company that puts safety (public and worker), the environment and service reliability first.



Board of Directors, Officers and Committees

As at March 31, 2011

Board of Directors of NT Hydro and NTPC

Brendan Bell	Chairman
Peter Allen	Vice Chairman
Danny Yakeleya	Director
James Schaefer	Director
James Wah-Shee	Director
Eric Menicoche	Director
David Tucker	Director
Eddie Lavoie	Director
Peter Taschuk	Legal Advisor
Ron Threlkeld	Utility Advisor

Officers of NT Hydro

Brendan Bell	Chairman
David Axford	President & Chief Executive Officer
Emanuel DaRosa	Director, Corporate Operations and Chief Operating Officer
Judith Goucher	Director, Finance and Chief Financial Officer
Cheryl Tordoff	Corporate Secretary

NT Hydro Audit and Efficiency Committee

David Tucker	Chairman
James Wah-Shee	Committee Member
Eric Menicoche	Committee Member
Danny Yakeleya	Committee Member



Our Energy Future

Throughout its history, the North's non-renewable resources have driven our economic prosperity. Existing hydro developments — the Snare River, which delivers 28 megawatts of power and the Taltson River that delivers 18 megawatts of power to the NWT — are a direct result of federal and private sector investment and have created a legacy of renewable power that continues to deliver energy today. However, little has changed since the 1960s and much of our hydro and other energy resources remain untapped.

The Northwest Territories Hydro Corporation is working to change this.

There are thousands of megawatts of hydro potential on a few major rivers in the NWT and hundreds of megawatts at many smaller sites that could be sources of clean energy supply. As we develop a better understanding of where these opportunities are, the challenge will be to link energy demand from communities and emerging industry with new

sources of renewable energy across our vast territory.

It takes time to understand the benefits and challenges to developing community energy projects and larger projects that can link communities and industry together. For some communities, connection to a power grid is the answer; for others local energy supply may be the only option. We've been gathering information to help residents and communities understand their options and participate actively in the discussion that will lead to informed decision-making about the future.

In the near term our work to better understand energy resources and engage with communities, governments and regional groups will remain a key area of focus. In the long term we aim to develop a suite of energy options for decision makers to consider.

The challenges of expanding our energy grid, reducing our reliance

on fossil fuels and addressing energy costs over the long term are significant and long standing. Working knowledge of our most viable energy choices will ultimately improve our decision-making and the North's energy future.

2010-11 Activities

NT Hydro is positioned to research, promote and develop the North's renewable energy resources, especially proven hydropower. NT Hydro is implementing many of the energy initiatives identified in the GNWT's Draft Hydro Strategy. Other renewable energy options like wind, solar, geothermal and biomass are actively supported by the GNWT, with NT Hydro in an advisory role.

2010-11 was our first fully staffed year of operations and we've made considerable strides to identify the energy potential of some parts of the NWT and relate these opportunities back to residents, communities and business. There is more work to be done.

In the past year, we have worked in partnership with communities like Tulita, Wekweeti and Dettah to examine specific energy opportunities identified by local people and have shared our findings. We also completed engineering design and cost estimates to develop a mini-hydro project near Lutsel K'e.

On a regional scale we are looking at ways to bring new life to the Taltson expansion project in the South Slave region — by looking at the potential for new power markets, additional partners and customers to make a strong business case for approval and funding on this project. We're also looking at ways to expand the Snare power grid and support ongoing work to study the La Martre River Hydro project, led by the Tlicho Investment Corporation.

Expanding the power grid at the regional and territorial level clearly has the strongest potential to reduce energy cost pressures in the North, distribute our energy more widely, benefit communities and expand our economy. Development of hydro and other renewable energy will also reduce the NWT's dependency on diesel-generated power and significantly reduce greenhouse gas emissions. However there are significant costs and risks to energy development. We need to do a great deal of engineering, environmental and economic work to decide if it makes sense to bring renewable



energy projects to construction. And these opportunities will also be measured against other priorities and opportunities.

Taltson Hydro Project

This run of river project would add up to 56 megawatts of power generating capacity to the existing 18 megawatt Taltson Twin Gorges Plant. It was initially explored to power the diamond mining industry northeast of Yellowknife, as an alternative to burning fossil fuels. Dezé Energy was formed (a partnership between the Akaitcho Energy Corporation, Métis Energy Company Ltd. and NWT Energy Corporation (03) Ltd.) to pursue the development.

However, it became clear this year that the combined life of all the diamond mines and commitments to buy power could not, on their own, support financing and construction of the project. And without long term power contracts, the hydro project did not make economic sense in its current form.

On March 2, 2011, Dezé Energy submitted a letter to the MVEIRB requesting a pause in the environmental assessment process. Dezé remains committed to the project and is working to make a strong business case by finding new partners and customers for the project.

Selwyn Mine Hydro Project

We assisted the Fort Norman Métis and Tulita Land Corporations to look at options to develop a run

of river hydropower project to supply Selwyn Resources and its proposed lead/zinc mine located at Howards Pass, on the NWT/Yukon border.

We met with the Fort Norman Métis and Tulita Land Corporations in August 2010 and identified potential sites and issues associated with a hydropower project in the Little Nahanni watershed, in Nahanni National Park.

Brackett River

In partnership with the Tulita Land Corporation, NT Hydro investigated the hydro potential of the Brackett River near Tulita as a potential source of hydropower for the community.

Beaulieu River

We received a request from the Yellowknives Dene First Nation (YKDFN) to investigate the hydro potential of the Beaulieu River. We are conducting a technical analysis and will be sharing results with the YKDFN. In the 2009-10 fiscal year we installed gauging stations to record water volume and flow in the region. Remote data collection continues on the:

- Beaulieu River (enters east Arm of Great Slave Lake at Pauline Bay)
- Barnston River (enters East Arm of Great Slave Lake at McLeod Bay)
- Hoarfrost River (enters East Arm of Great Slave Lake at McLeod Bay)
- Waldron River (enters East arm of Great Slave Lake at McLeod Bay)

This information is available from the Environment Canada website: www.wateroffice.ec.gc.ca.

La Martre River

In 2010-11, the Tlicho Investment Corporation received support to conduct a feasibility study of the La Martre River hydro project through the GNWT's Energy Priority

Investment Program. Work to design and build a 6 to 13 megawatt hydro facility to supply power to Whati and the Snare River power grid will continue in 2011-12.

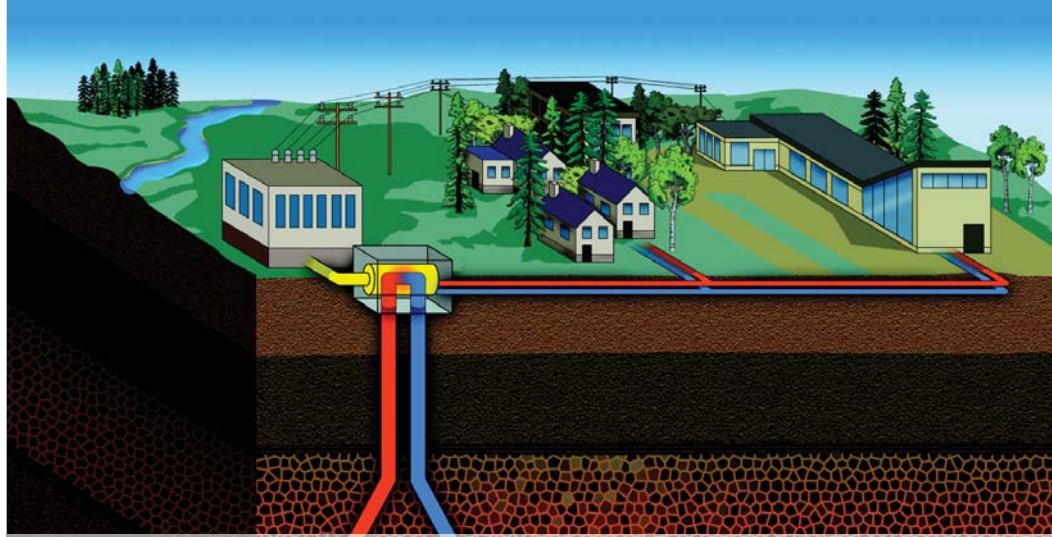
Lutsel K'e Mini Hydro Project

The Lutsel K'e mini hydro project would be located on the Snowdrift River, roughly 18 kilometres from the community. A run of river mini hydro plant would generate between 500 kilowatts and 1 megawatt of power, which would meet the community's electricity needs. Electric heat for 3 or 4 community buildings was also considered as part of the design. Estimated capital costs are much higher than expected and we need to confirm community and GNWT support for the project. Until community and GNWT support is confirmed, no further work is planned.

Fort Simpson Hydrokinetic Turbine Pilot Project

A hydrokinetic turbine is a relatively new and unproven technology that converts the flow of a river into electricity. The turbine spins in the river and the power generated is connected by underwater cable to the local electricity distribution system. Clean power generated by hydrokinetic technology may help remote communities reduce diesel fuel generation in the future but the technology remains in the development stage.

The Fort Simpson hydrokinetic turbine pilot project was installed in the Mackenzie River in the summer of 2010. This project is the first of its kind in Canada's North. It will help determine if this technology is a feasible source of clean hydropower for NWT



Geothermal energy taps steam or water deep in the earth's crust to generate electricity

Other sources of renewable energy

When alternative energy funding is available, we work with interested communities to assess other renewable energy opportunities, research and complete the technical and economic feasibility studies of potential energy solutions and test alternative energy pilot projects in the NWT.

Fort Liard Geothermal Study

Geothermal energy is a form of renewable energy stored deep in the earth's crust. Steam or water from underground geothermal reservoirs is piped to the surface and used to spin turbines, which produce electricity.

A study completed in 2010-11 suggests that the Fort Liard reserve has enough potential to entirely replace diesel generation in the community. The project proposes up to 1 megawatt of electricity

communities. This pilot project received funding from the GNWT's Energy Priorities Investment Plan. We are also participating in a study with Natural Resources Canada to look at hydrokinetic potential in other parts of the NWT.

generation with an option for the equivalent of 1 megawatt of residual heat from the power plant.

The Government of Canada, through its Clean Energy Fund, has committed 50 percent of the project funding to a joint venture between the private sector proponent and the Acho Dene Koe First Nation. Territorial support is provided by the Department of Environment and Natural Resources.

Fort McPherson Biomass Study

The development of new efficient technologies has made wood (or biomass) a reliable source of energy for large-scale applications. Burning wood in super-efficient boilers is considered carbon neutral because the minimal polluting effect of burning wood chips or pellets is cancelled out by growing more trees.

Work is underway in Fort McPherson to determine the feasibility of harvesting wood in the area that could produce wood pellets. Another possibility for this technology is in supplying the heat that is generated by the boilers back to the surrounding building in the form of heat.



Management Discussion and Analysis

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

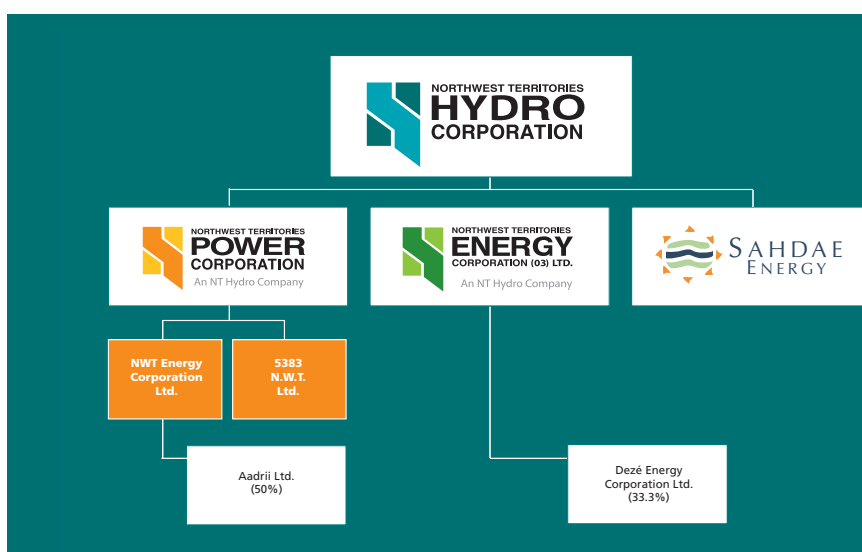
Description of NT Hydro Operations

NT Hydro is a public agency, established in 2007 under the *Northwest Territories Hydro Corporation Act* and is 100 percent owned by the Government of the Northwest Territories (GNWT). NT Hydro owns 100 percent of the Northwest Territories Power

Corporation (NTPC), which is also a public agency established under the *Northwest Territories Power Corporation Act*. In addition to NTPC, NT Hydro owns NWT Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL) (reference Figure 1), both of which are incorporated

under the *NWT Business Corporations Act*. This corporate structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the GNWT's investment in the regulated activities of NTPC.

Figure 1 - NT Hydro Corporate Structure





Dezé Energy is pursuing a hydroelectric project on the Talston River

NT Hydro, through its wholly owned subsidiary, NTPC, operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC has two wholly owned subsidiaries, the NWT Energy Corporation Ltd. (NTEC) and 5383 NWT Limited.

NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 megawatt hydro facility. NTEC is also responsible for the operation, management and shared ownership (50 percent) of one residual heat project in Fort McPherson. 5383 NWT Ltd. is an inactive company.

The Northwest Territories Public Utilities Board (PUB) regulates NTPC activities.

NT Hydro is also involved in unregulated hydro development to serve industrial customers through its subsidiaries NTEC(03) and Sahdae Energy. NTEC(03) is wholly-owned by NT Hydro and has two operations, the development of hydro electric business opportunities outside the regulated business and an investment in Dezé Energy Corporation, which is pursuing the development of a hydroelectric project on the Taltson River. Sahdae Energy is wholly owned by NT Hydro and its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley pipeline.



Strategies and Objectives for 2010-2011

NT Hydro set objectives and strategies for NTPC in 2010-11 to be efficient and effective while maintaining or improving reliability, delivering quality customer service, operating safely and protecting the environment. In addition, the Corporation continued to work with Aboriginal partners to explore hydro development opportunities through NTEC(03) and Sahdae. During the next 5 to 10 years, NT Hydro will focus in delineating and developing the NWT's hydroelectric resources, evaluating and advancing alternative energy sources and reducing fossil fuel dependence. The shareholder set the strategic direction, which encompassed the core regulated utility business as well as the development of hydro.

NTPC Fully Integrated Regulated Utility

NTPC distributes electricity to the end use consumers in 26 of the 33 communities in the NWT and supplies electricity on a wholesale

basis to 2 distributing utilities, which in turn retail electricity to customers in Yellowknife and the Hay River area. NTPC's facilities include hydroelectric, diesel and natural gas generation plants, transmission systems and numerous isolated electrical distribution systems. NTPC also owns and operates alternative energy assets used for the supply of residual heat, solar power and co-generation.

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

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



Environment and Safety

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

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

Reliability, Customer Service and Energy Conservation

Under the objectives of improved reliability and quality customer

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

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

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

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

Cost Effective Energy

When it comes to generation source, renewable hydro electricity represents by far the



Hydrokinetic energy is a relatively new, unproven technology that converts river flow into electricity.

greatest source of power for NWT customers. In 2010-11 hydropower held steady at 74 percent of the total power generated. Although more expensive than hydro, diesel generation remains the most cost effective way to provide safe reliable power to small communities with no access to an electricity grid. NTPC has fuel stabilization funds that track the difference between forecast fuel costs used for rate setting purposes and the actual fuel cost when the power is generated. Currently fuel riders are in place in all communities to recover fuel cost paid by NTPC but not yet recovered from customers.

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

were established in 1997. Fuel riders were discontinued in 2010-11 as NTPC continued to work with the GNWT and the Public Utilities Board (PUB) to implement the recommendations from the GNWT's report: **Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System**. The GNWT fulfilled its commitment in 2010-11 to pay down our stabilization funds by \$3M and a further \$3M contribution was received after the year.

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

Profitability, Financial Strength and Sound Business Practices

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

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

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



Meeting Our Workforce Needs

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

NTEC(03) Taltson Hydro Expansion

NTEC(03) is actively working with its partners, the Akaitcho Energy Corporation and the Métis Energy Company Ltd., through the Dezé Energy Corporation (Dezé), to re-define the project. On March 2, 2011, Dezé Energy submitted a letter to the MVEIRB requesting a pause in the environmental assessment process to find other funders for the project.

Dezé remains committed to the project and the benefits of using renewable energy to displace fossil fuels and work is underway to address gaps in the business case by finding new partners and customers for the project.

The existing Taltson plant is an 18 megawatt hydro facility located on the Taltson River approximately 56 km northeast of Fort Smith. It was built by the Northern Canada Power Commission in 1965 to supply electricity to the Pine Point mine and now supplies power to the communities of Fort Smith, Fort Resolution, Hay River and Fort Fitzgerald.

The proposed Taltson hydroelectric expansion project would add a new power plant and transmission line to the existing Twin Gorges

power plant on the Taltson River. The project will benefit northern communities, industry and the environment during its estimated 40-year lifespan. As a business venture between Aboriginal nations and a Crown corporation, the Taltson expansion will bring new jobs, training and business opportunities to the South Slave region of the NWT. The lifestyle, values and traditions of local communities are reflected in the project's ownership and design.



Sahdae Energy Great Bear Hydro

NT Hydro, through its subsidiary Sahdae Energy, continues to observe the regulatory review of the Mackenzie Valley pipeline project and awaits a decision from the regulator indicating whether the proponents of the project will be required to design and build the system – which has the

potential to power the pipeline with hydro. Consultation and project education will be the focus over the next year and beyond, to solidify support for this world-class project that has potential to create significant benefits for the region and the North.

**NT Hydro (parent)
Energy Planning and
Renewable Energy**

NT Hydro is working with the GNWT to explore mini hydro projects and other alternative energy sources to reduce the amount of power that must be generated using diesel.

NT Hydro put out a call for proposals for the private sector to develop a demonstration wind project in the NWT. A long lead-time was incorporated into the proposal call to allow prospective respondents to put together a plan and develop partnerships for this project. The response to the proposal call was limited and as a result, NT Hydro will shift its

focus to support third party wind projects through interconnection and purchase of wind power.

**Financial Results
Operations**

Net income for 2010-11 is \$3.1 million compared to 2009-10 of \$5.3 million. Revenue growth was flat in 2010-11 and did not keep pace with increased operating and interest costs.

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

Operating expenses for 2010-11 (net of government contributions) were up \$1.6 million from



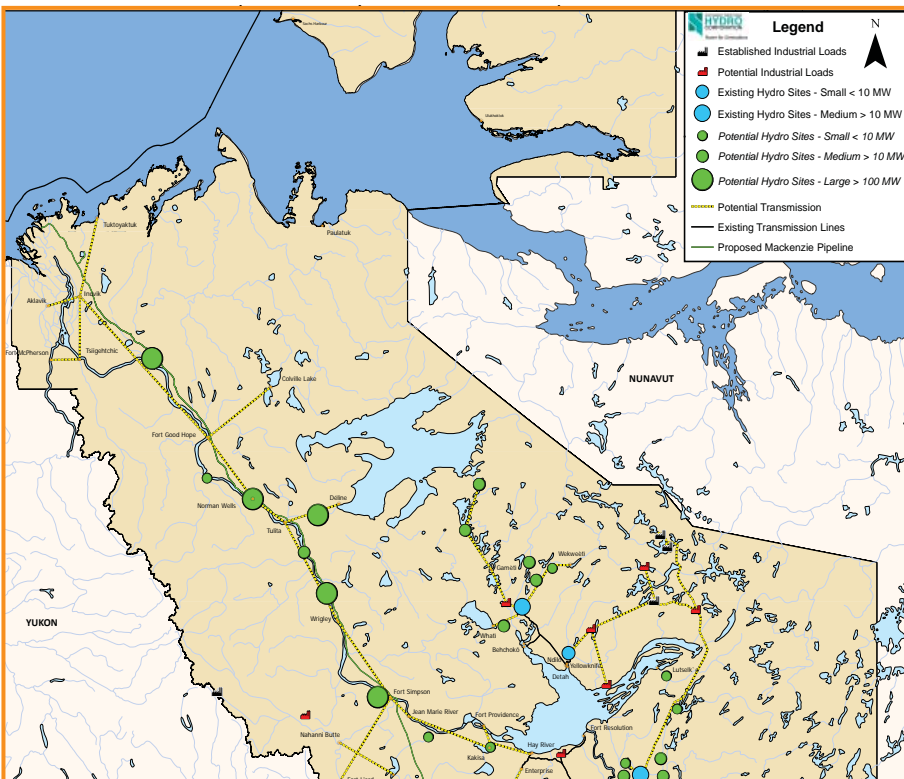
2009-10 (2.4 percent). This is in line with growth in expenses for the past 2 years however with marginal increases in sales revenue, net income was negatively affected by the increase in expenses.

Interest expense in 2010-11 was approximately \$0.4 million higher than 2009-10. NT Hydro issued a \$50 million, 5.16 percent debenture in 2010-11, resulting in increased interest expense of approximately \$1.4 million. NTEC(03) borrowed approximately \$4.1 million in 2010-11 to at a cost of \$0.1 million to further its expansion project. Strong performance in our sinking funds offset most of these increases.

Financing Activities

The capital programs from 2008-09 through 2009-10 were all substantially funded with short-term debt. In 2010-11, NTPC's short-term debt was repaid from the proceeds of a \$50 million, 5.16 percent debenture. NTEC owed approximately \$4.1 million as at March 31, 2011. Subsequent to the year, the debt was repaid by way of a contribution from the GNWT.

Conceptual Vision for Hydro and Transmission Development in the NWT



Capital Expenditures

Each year NT Hydro makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. Our capital investment levels in 2010-11 were similar to the previous year (approximately \$25.2 million in 2010-11 versus \$24.3 million in 2009-10). The majority of projects were to maintain or improve reliability. NT Hydro will continue to increase capital expenditures for 2011-12 and will continue its capital project to replace the Bluefish hydro dam.

The Bluefish Dam expenditures in 2009-2010 were related to the completion of the regulatory process and engineering design. The 2011 expenditures were for mobilization of equipment and materials for the summer construction season. The new dam will be located downstream from the existing dam and will be constructed while the current dam continues to operate and provide hydropower to the Yellowknife area. NTPC will assign all resources necessary to meet an aggressive timeline for the replacement of

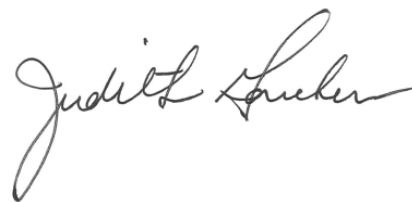
the Bluefish hydro dam, which is approximately 70 years old and has reached the end of its useful life.

Outlook for 2011-12

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

Fiscal 2011-2012 will be the first full year under the new rate structure. The new rate structure will reduce revenue by more than \$1 million compared to fiscal 2010-11 and should be partially offset by modest increases in sales volumes. We also expect costs to continue to escalate. NT Hydro's expected net income for 2011-12 is approximately \$1.3 million. This is significantly lower than any recent year's performance. In order to meet this target NT Hydro will need to focus on system reliability, operational

efficiency and overall cost controls through sound financial management.



Judith Goucher
Director, Finance and CFO



Financial Statements

***Auditor's Report
Consolidated Financial Statements***

As at March 31, 2011



INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Hydro Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Northwest Territories Hydro Corporation and its subsidiaries, which comprise the consolidated balance sheet as at 31 March 2011, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of shareholder's equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

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

21 September 2011
Edmonton, Canada

CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST TERRITORIES HYDRO 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 Hydro Corporation (NT Hydro) 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.

NT Hydro 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 NT Hydro's objectives, are protected from loss or unauthorized use and that NT Hydro acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting NT Hydro's affairs in accordance with the requirements of applicable laws and sound business principles, and for maintaining standards of conduct that are appropriate to an Agent of the territorial government. An internal auditor reviews the operation of financial and management systems to promote compliance and to identify changing requirements or needed improvements.

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

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

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



Emanuel DaRosa
Acting President & CEO



Judith Goucher
Director, Finance & CFO

Hay River, NT
September 21, 2011

NORTHWEST TERRITORIES HYDRO CORPORATION

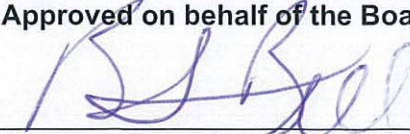
**Consolidated Balance Sheet
As at March 31
(\$000's)**

	2011	2010 (restated – note 2)
Assets		
Current assets		
Cash	\$ 2,614	\$ 1,694
Accounts receivable (Note 6)	15,117	16,632
Inventories (Note 7)	4,428	4,148
Prepaid expenses	2,802	700
Current portion of sinking fund investments (Note 9)	15,000	-
	<u>39,961</u>	<u>23,174</u>
Property, plant and equipment, net (Note 8)	307,067	289,469
Other non-current assets		
Sinking fund investments (Notes 9, 14)	23,726	34,368
Intangible assets (Note 10)	1,268	1,457
Regulatory assets (Note 4)	16,226	20,530
	<u>41,220</u>	<u>56,355</u>
	<u>\$ 388,248</u>	<u>\$ 368,998</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term debt (Note 11)	\$ 5,466	\$ 38,639
Accounts payable, accrued liabilities and derivatives (Note 12)	19,005	17,281
Dividend payable (Note 13)	-	3,500
Current portion of long-term debt (Note 14)	16,316	1,255
	<u>40,787</u>	<u>60,675</u>
Long-term debt		
Long-term debt, net of sinking fund investments (Note 14)	146,783	117,633
Sinking fund investments presented as assets (Note 9)	38,726	34,368
Net lease obligation (Note 15)	1,811	1,652
	<u>187,320</u>	<u>153,653</u>
Other non-current liabilities		
Regulatory liabilities (Note 4)	40,502	38,855
Deferred government contributions (Note 16)	12,009	9,721
Asset retirement obligations (Note 17, 18)	4,674	4,806
Employee future benefits (Note 19)	2,120	3,223
	<u>59,305</u>	<u>56,605</u>
Shareholder's equity	100,836	98,065
	<u>\$ 388,248</u>	<u>\$ 368,998</u>

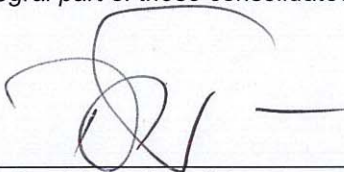
Commitments and contingencies (Note 26)

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

Approved on behalf of the Board:



Brendan Bell, Chairman of the Board



David Tucker, Director

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2011</u>	<u>2010</u>
Revenues		
Sale of power	\$ 81,676	\$ 81,535
Other revenues (Note 20)	1,175	1,355
	<u>82,851</u>	<u>82,890</u>
Expenses		
Salaries and wages	21,930	20,279
Fuels and lubricants	18,852	19,054
Supplies and services	14,987	15,291
Amortization (Note 21)	14,719	14,146
Travel and accommodation	2,529	2,185
	<u>73,017</u>	<u>70,955</u>
Earnings from operations	9,834	11,935
Insurance proceeds (Note 22)	-	1,296
Insurance expenses (Note 22)	-	1,296
	<u>-</u>	<u>-</u>
Interest income	<u>275</u>	<u>289</u>
Earnings before interest expense	10,109	12,224
Interest expense (Note 23)	<u>9,250</u>	<u>8,858</u>
Income before fuel rider and government assistance	859	3,366
Fuel rider revenues (Note 4)	9,838	4,918
Offsetting fuel rider expenses (Note 4)	<u>9,814</u>	<u>4,881</u>
	24	37
Government assistance (Note 24)	<u>2,289</u>	<u>1,870</u>
Net income	<u>\$ 3,172</u>	<u>\$ 5,273</u>

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2011</u>	<u>2010</u>
Net income	\$ 3,172	\$ 5,273
Other comprehensive income		
Reclassification adjustment for realized gains on sale of financial assets included in net income	(1,798)	(495)
Unrealized gains on available-for-sale financial assets arising during the year	1,397	2,542
Other comprehensive (loss) income	<u>(401)</u>	<u>2,047</u>
Comprehensive income	<u>\$ 2,771</u>	<u>\$ 7,320</u>

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

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

	<u>2011</u>	<u>2010</u>
Share capital (Note 25)	\$ 43,129	\$ 43,129
Retained earnings		
Retained earnings at beginning of year	54,014	52,241
Net income	3,172	5,273
Dividend declared (Note 13)	-	(3,500)
Retained earnings at end of year	<u>\$ 57,186</u>	<u>\$ 54,014</u>
Accumulated other comprehensive income		
Accumulated other comprehensive income (loss) at beginning of year	\$ 922	\$ (1,125)
Other comprehensive (loss) income	<u>(401)</u>	<u>2,047</u>
Accumulated other comprehensive income at end of year	<u>\$ 521</u>	<u>\$ 922</u>
Shareholder's equity at end of year	<u><u>\$ 100,836</u></u>	<u><u>\$ 98,065</u></u>

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2011</u>	<u>2010</u>
Operating activities:		
Cash receipts from customers	\$ 91,724	\$ 94,040
Government assistance	4,955	1,887
Cash paid to suppliers and employees	(69,108)	(68,818)
Interest received	275	289
Interest paid	(12,700)	(10,728)
Cash flows provided by operating activities	<u>15,146</u>	<u>16,670</u>
Investing activities:		
Property, plant and equipment constructed or purchased	(25,232)	(24,355)
Cash flows used in investing activities	<u>(25,232)</u>	<u>(24,355)</u>
Financing activities:		
Net proceeds (repayments) from short-term debt	(33,173)	9,282
Dividend paid (Note 13)	(3,500)	(3,500)
Government contributions (Note 16)	2,026	3,225
Sinking fund instalments	(2,961)	(3,872)
Repayment of long-term debt	(1,295)	(1,195)
Receipts from net lease obligation	159	112
Proceeds from long-term debt (net of debt issue costs)	49,750	-
Cash flows provided by financing activities	<u>11,006</u>	<u>4,052</u>
Net (decrease) increase in cash	920	(3,633)
Cash at beginning of year	<u>1,694</u>	<u>5,327</u>
Cash at end of year	<u>\$ 2,614</u>	<u>\$ 1,694</u>

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

1. Authority and operation

The Northwest Territories Hydro Corporation (NT Hydro) is established under the *Northwest Territories Hydro Corporation Act*. NT Hydro is a public agency under Schedule B of the *Financial Administration Act* of the Northwest Territories and is exempt from income tax. The Government of the Northwest Territories (GNWT) owns all shares of NT Hydro. NT Hydro controls three wholly-owned subsidiary companies: the Northwest Territories Power Corporation (NTPC), the Northwest Territories Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL).

NT Hydro, through its wholly-owned subsidiary NTPC, operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC is a regulated company, established under the *Northwest Territories Power Corporation Act* and controls two wholly-owned subsidiaries: the Northwest Territories Energy Corporation Ltd. (NTEC) and 5383 NWT Ltd. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility. NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson. See additional disclosure in Note 30. 5383 NWT Ltd. is an inactive company.

NT Hydro is also involved in unregulated hydro development to serve industrial customers through its subsidiaries NTEC(03) and SEL. NTEC(03) is wholly-owned by NT Hydro and has two operations, the development of hydroelectric business opportunities outside the regulated business and an investment in Dezè Energy Corporation, which is pursuing the development of a hydroelectric project to provide power to diamond mines. Sahdae is wholly-owned by NT Hydro and its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley gas pipeline.

Consolidation

The consolidated financial statements include the accounts of NT Hydro and its wholly-owned subsidiaries: NTPC, NTEC(03), SEL, as well as NTPC's wholly-owned subsidiaries: NTEC and 5383 NWT Ltd. NT Hydro and its subsidiaries account for interests in jointly controlled entities using the proportionate consolidation method. All intercompany transactions and balances are eliminated upon consolidation.

2. Accounting changes

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

Note 2. Accounting changes (continued)

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

The combined effect of these accounting changes has been applied retroactively and the comparative balances have been restated. The combined effect of these changes was to increase the asset retirement obligations by \$4,548 (2010 – increase by \$6,124) before giving effect to the time-value of money. The combined effect after discounting was to decrease asset retirement obligations by \$2,919 (2010 – decrease by \$2,782) and to increase the regulatory liabilities – reserve for future removal and site restoration by \$2,919 (2010 – increase by \$2,782). There was no impact on the statement of operations or shareholder's equity as a result of these changes. Refer to notes 17 and 18 for further details on the asset retirement obligations and environmental liabilities.

3. 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 currently the only NT Hydro subsidiary that undertakes activities regulated by the Public Utilities Board (PUB) of the Northwest Territories.

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

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

The PUB uses cost of service regulation to regulate NTPC's earnings on a rate of return basis. In the 2006/08 GRA, the PUB approved a target rate of return of 9.25% for fiscal 2008. The allowed rate of return will be reassessed at the time of the next GRA. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

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

Revenues

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

Property, plant and equipment and intangible assets

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

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

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

NT Hydro 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 4). Amortization is suspended when assets are removed from service for an extended period of time. Assets held for future use are not amortized until these assets are placed into service, at which time they are reallocated to the appropriate asset group and amortized according to the amortization rates for that group.

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

Note 3. 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 the Corporation and by the Public Utility Board (PUB) every three years as required by legislation. The Corporation uses amortization studies and other information and/or testimony to substantiate amortization rate changes. The PUB can direct amortization rate changes and these changes are done on a prospective basis. Cumulative excess or deficient amortization calculated at the time of the review is recognized over a period as prescribed by the PUB. The last general rate application was in the 2008 fiscal year and the last amortization study was in fiscal 2002. The next general rate application is planned in fiscal 2013 and the Corporation is undertaking an amortization study in fiscal 2012.

Inventories

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

Public Service Pension Plan

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

Employee future benefits

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

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

Asset retirement obligations

On an annual basis, NT Hydro 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 NT Hydro's credit-adjusted risk-free rate.

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

NT Hydro has identified some asset retirement obligations for its hydro, thermal transmission and distribution assets where NT Hydro 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. NT Hydro 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. NT Hydro 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 capital contribution. Some of the contributions stemming from contribution agreements with the GNWT are repayable to the GNWT when the property, plant and equipment go into service. Contributions stemming from contribution agreements with the Federal Government are not repayable and are amortized into income on the same basis as the amortization of the related property, plant and equipment.

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

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

Note 3. 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 significantly from these estimates. Significant estimates include amortization of assets, employee future benefits, fair values of financial instruments, regulatory assets and liabilities, asset retirement obligations and environmental liabilities.

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

Financial instruments

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

Held for trading

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

Available-for-sale

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

Loans and receivables

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

Held-to-maturity

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

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

Other financial liabilities

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

Other policy decisions:

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

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

Hedging relationships and derivative financial instruments

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

(b) Future accounting changes

International Financial Reporting Standards

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

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

4. Financial statement effects of rate regulation

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

Regulatory assets and liabilities

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

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

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

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

Regulatory assets

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

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

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

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

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

Rate stabilization funds

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

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

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

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

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

Regulated employee future benefits

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

Note 4. Financial statement effects of rate regulation (continued)**Reserve for injuries and damages**

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

Normalized overhaul costs

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

Water licensing deferral account

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

Regulatory costs

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

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

Other regulatory assets

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

Snare Cascades deferral account

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

Fuel rider revenues

Rider revenues with an associated fuel expense:

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

Regulatory liabilities

	2011	2010 (Restated - Note 2)	Remaining
			settlement period
Reserve for future removal and site restoration	\$ 36,152	\$ 34,980	Determined by PUB
Deferred revenues	4,350	3,875	Determined by PUB
	<u>\$ 40,502</u>	<u>\$ 38,855</u>	

NORTHWEST TERRITORIES HYDRO CORPORATION

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

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

Reserve for future removal and site restoration

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

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

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

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

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

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

Deferred revenues

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

Gains and losses on disposal of property plant and equipment

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

Capitalized allowance for funds used during construction

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

In fiscal 2011 approximately \$673 (2010 - \$804) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB-approved cost of capital structure.

Capitalized fuel

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

5. Capital management

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

	<u>2011</u>	<u>2010</u>
Long-term debt	\$ 203,320	\$ 154,624
Less: Sinking funds	38,726	34,368
Less: Unamortized premium, discount and issuance costs	1,495	1,368
Net long-term debt	<u>163,099</u>	<u>118,888</u>
Short-term debt not used to fund regulatory assets and receivables	-	18,639
Net lease obligation	1,811	1,652
Shareholder's equity	100,836	98,065
Less: AOCI	521	922
Adjusted shareholder's equity	<u>100,315</u>	<u>97,143</u>
Total capital	<u>\$ 265,225</u>	<u>\$ 236,322</u>

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

NT Hydro's objectives with respect to managing its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and within the limitations set by the *NWT Power Corporation Act* and the debt cap limitations of the federal government on the GNWT while striving to deliver targeted financial returns as set by the PUB. The Corporation manages its capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing quarterly financial results. The Corporation has set a long-term debt capitalization target of 50/50. The debt capitalization ratio for fiscal 2011 is 62/38 (2010 - 59/41).

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

6. Accounts receivable

The aging of accounts receivable was:

	2011				2010
	Current (less than 28 days)	29-90 days	Over 90 days	Total	Total
Utility	\$ 9,429	\$ 843	\$ 1,053	\$ 11,325	\$ 12,506
Non-utility	3,244	6	903	4,153	4,409
Allowance for doubtful accounts	-	-	(361)	(361)	(283)
	<u>\$12,673</u>	<u>\$ 849</u>	<u>\$ 1,595</u>	<u>\$ 15,117</u>	<u>\$ 16,632</u>

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

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

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

7. Inventories

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

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

8. Property, plant and equipment

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Electric power plants	\$ 221,708	\$ (59,969)	\$ 161,739	\$ 156,916
Transmission and distribution systems	75,906	(19,477)	56,429	55,977
Electric power plant under capital lease	26,342	(5,946)	20,396	20,801
Warehouse, equipment, motor vehicles and general facilities	36,063	(11,927)	24,136	18,979
Other	4,519	(1,648)	2,871	4,079
Other utility assets	9,222	(4,701)	4,521	2,783
Assets held for future use	3,197	-	3,197	2,322
	<u>376,957</u>	<u>(103,668)</u>	<u>273,289</u>	<u>261,857</u>
Construction work in progress	<u>33,778</u>	<u>-</u>	<u>33,778</u>	<u>27,612</u>
	<u>\$ 410,735</u>	<u>\$ (103,668)</u>	<u>\$ 307,067</u>	<u>\$ 289,469</u>

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

Included in property, plant and equipment is \$17,539 (2010 - \$14,648) of costs related to the Taltson Hydro expansion project of which \$14,178 (2010 - \$11,285) is included in construction work in progress. This project is funded by way of \$9,462 of related deferred government contributions as at March 31, 2011 (2010 - \$9,075) and short term debt of \$4,150 (2010 - \$nil). The remaining amount was funded by way of a loan by NTPC to NTEC (03). Subsequent to the year, the short term debt was paid off by the GNWT on behalf of NTEC (03) and will be reflected as an additional deferred government contribution in fiscal 2012.

NORTHWEST TERRITORIES HYDRO CORPORATION

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

9. Sinking fund investments

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

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

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

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

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

10. Intangible assets

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

11. Short-term debt

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

	2011	2010
Shareholder's advance	\$ -	\$ 20,000
Bankers acceptances and bank overdraft	5,466	18,639
	<u>\$ 5,466</u>	<u>\$ 38,639</u>

The short-term debt outstanding at year-end had a weighted average 90 day term (2010 - 31 day term) and a 2.84% (2010 - 1.45%) weighted average annual interest rate.

12. Accounts payable, accrued liabilities and derivatives

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

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

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

13. Dividend payable

Pursuant to Section 29 of the *Northwest Territories Power Corporation Act*, the GNWT directed NTPC to declare a dividend of \$nil (2010 - \$3,500).

NORTHWEST TERRITORIES HYDRO CORPORATION

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

14. Long-term debt

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

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

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

15. Net lease obligation

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

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

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

Note 15. 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 \$1,652 (2010 - \$1,544). The current portion of the net lease obligation is a receipt of \$159 (2010 - \$108) and is recorded in accounts receivable. As a result, upon consolidation, in the early years there will be a net payment and in later years there will be a net receipt until such time as the loan receivable is fully repaid in 2026 when only the capital lease obligation payments continue until 2061.

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

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

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

16. Deferred government contributions

In fiscal 2011 the GNWT signed four new contribution agreements with NT Hydro and its subsidiaries for capital project funding.

The first agreement was a one-year contribution agreement with NTEC(03) to provide \$200 (2010 – \$2,500) in financial assistance for the Taltson hydro expansion project. In the current year, \$200 (2010 - \$2,500) of this funding was received and the Corporation used all of this funding in furthering the project.

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

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

The fourth agreement was between the GNWT and NT Hydro for \$575 for activities related to furthering mini-hydro projects. NT Hydro used \$387 of the funding from this agreement for capital development of mini-hydro. The remainder was used for non-capital work. Refer to Note 24 for details of non-capital (or operating) assistance.

Note 16. Deferred government contributions - Capital funding (continued)

The accumulated balance in deferred contributions includes \$8,075 (2010 - \$7,875) provided by the GNWT which is considered repayable to the GNWT should the Taltson Hydro Expansion Project proceed or if NTEC (03) acquires funding for these costs from other sources. The Taltson Hydro Expansion Project has not been given the authorization to proceed nor has NTEC (03) acquired funding for these costs from other sources, therefore at March 31, 2011, \$nil (2009 - \$nil) of these amounts were repayable to the GNWT.

PPP Canada Inc. and the Métis Energy Corporation (through funding from the Government of Canada) provided \$186 (2010 - \$nil) in financial assistance for the Taltson hydro expansion project. In the current year, \$36 (2010 - \$nil) of this funding was received and the Corporation used all of this funding in furthering the project. The remaining \$150 was receivable at the end of the year.

Total government assistance recorded for capital projects from 2006 to 2011 is \$12,009 (2010 - \$9,721). Total amortization of deferred government contributions in 2011 was \$6. (2010 - \$nil)

17. Asset retirement obligations

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

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

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

18. Environmental liabilities

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

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

19. Employee future benefits

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

a) Contributions to the PSPP were as follows:

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

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

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

20. Other revenues

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

21. Amortization

	<u>2011</u>	<u>2010</u>
Property, plant and equipment	\$ 11,797	\$ 11,209
Intangible assets	271	236
Regulatory and other assets (Note 4)	3,127	3,136
Deferred revenues (Note 4)	(476)	(435)
	<u>\$ 14,719</u>	<u>\$ 14,146</u>

22. Insurance proceeds and expenses

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

23. Interest expense

	<u>2011</u>	<u>2010</u>
Interest on long-term debt	\$ 15,217	\$ 13,960
Short-term debt financing costs	477	408
Income from sinking fund	(3,161)	(2,256)
Income on loan receivable (Note 15)	(1,828)	(1,911)
Capitalized allowance for funds used during construction	(1,455)	(1,343)
	<u>\$ 9,250</u>	<u>\$ 8,858</u>

24. Government assistance

The GNWT provided \$2,289 (2010 - \$1,870) to NT Hydro and its subsidiaries for operating costs related to furthering the NWT Hydro Strategy, feasibility studies of mini hydro projects and a program related to rate review. Any funding provided under the contributions agreements and not expended during the current fiscal year is repayable to the GNWT. As at March 31, 2011, a net receivable of \$770 (2010 - \$433) of funding under these agreements was still receivable from the GNWT and is recorded in accounts receivable.

NORTHWEST TERRITORIES HYDRO CORPORATION

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

25. Share capital

	Number of shares	2011	Number of shares	2010
Preferred shares				
Authorized:				
One preferred share, non-cumulative, without par value				
Issued and outstanding:				
Issued on incorporation (one dollar)	1	\$ -	1	\$ -
Common shares				
Authorized:				
One common share without par value				
Issued and outstanding:				
Issued on incorporation	1	\$ 43,129	1	\$ 43,129

NT Hydro may only issue its shares to the Government of the Northwest Territories.

26. Commitments and contingencies

Capital projects

By June 2011, the Board of Directors approved a capital plan of \$37,849 (2010 - \$36,088) which includes the costs to complete projects already in progress at March 31, 2011.

Natural gas purchase commitment

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

Fuel management services agreement

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

Litigation

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

Workplace incident

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

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

Refer to Notes 14, 16 and 18 for other commitments and contingencies disclosed elsewhere in these financial statements.

27. Related party transactions

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

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

	<u>2011</u>	<u>2010</u>
Transactions during the year:		
Sale of power and other	\$ 20,488	\$ 25,334
Purchase of fuel from PPD	14,817	13,701
Dividend paid to GNWT	3,500	3,500
Other purchases and payments	3,311	2,067
Fuel tax paid to GNWT	615	508
Balances at year-end:		
Shareholder's advance (included in short-term debt)	-	20,000
Dividend payable to GNWT	-	3,500
Accounts payable, accrued liabilities and derivatives	1,325	2,396
Accounts receivable	1,705	1,493
Accounts payable to PPD	1,274	1,824

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

28. Financial Instruments

Risks – overview

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

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

a) Credit risk

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

	2011	2010
Accounts receivable	\$ 15,117	\$ 16,632
Snare Cascades loan receivable	18,756	19,269
Sinking fund fixed-income investments	15,838	22,598
Sinking fund equity investments	6,846	9,784
Sinking fund short-term investments	16,042	1,987
Cash	2,614	1,694
	<u>\$ 75,213</u>	<u>\$ 71,964</u>

Accounts receivable

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

Note 28. Financial instruments (continued)

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.

Cash and sinking fund investments

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

Derivatives

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

b) Liquidity risk

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

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 NT Hydro's short and long-term debt (excluding bank overdraft) as at March 31, 2011:

<u>Timeframe</u>	<u>Dollar Value</u>	
	<u>2011</u>	<u>2010</u>
Less than 1 year	\$ 20,466	\$ 37,257
Greater than 1 year and not later than 6 years	32,066	42,284
Greater than 6 years and not later than 20 years	103,557	84,083
Greater than 20 years	51,381	27,000
	<u>\$ 207,470</u>	<u>\$ 190,624</u>

c) Currency risk

Accounts payable

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

Note 28. Financial instruments (continued)

Sinking fund investments

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

d) Interest rate risk

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

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

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

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

e) Other price risk

Other price risk is the risk that the fair value or future cash flows of NT Hydro's financial instruments will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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

f) Sensitivity analysis for market risks

Market risk is the risk that the fair value or future cash flows of NT Hydro'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 instruments subject to market risk had varied by reasonably possible amounts from their actual balance sheet date values.

Note 28. Financial instruments (continued)

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

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

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

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

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

g) Fair value determination

The carrying value of cash, accounts receivables, accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments. These are level one classification.

NORTHWEST TERRITORIES HYDRO CORPORATION

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

Note 28. Financial instruments (continued)

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

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

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

	Fair Value Determination Level	Fair Value	Carrying Value
Held for trading financial assets			
Cash	Level 1	\$ 2,614	\$ 2,614
Short-term investments	Level 1	16,042	16,042
		\$ 18,656	\$ 18,656
Available-for-sale financial assets			
Federal Government guaranteed bonds	Level 1	\$ 3,665	\$ 3,665
Provincial Government guaranteed bonds	Level 1	2,641	2,641
Municipal Government guaranteed bonds	Level 1	1,977	1,977
Corporate bonds	Level 1	7,555	7,555
Canadian equities	Level 1	4,125	4,125
US and international equities	Level 1	2,721	2,721
		\$ 22,684	\$ 22,684
Other financial liabilities			
Short-term debt	Level 2	\$ 5,466	\$ 5,466
Long-term debt	Level 2	229,201	201,825
Net lease obligation	Level 2	3,472	1,652
		\$ 238,139	\$ 208,943

h) Impairment

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

Note 28. Financial instruments (continued)

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

29. Investments in joint ventures

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

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

30. Subsequent events

a) Long-term debt

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

b) Bluefish hydro dam – project permit

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

31. Comparative figures

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



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