

SOLAR



HYDRO



WIND



BIOMASS



GEO-THERMAL



NATURAL GAS



6 FEATURE >>

Back to the Future

Chances are that when you woke up this morning and poured your first cup of coffee you were benefitting from decisions taken 70 years ago.



Contents

- Board & Committees.....2
- Chair’s Message3
- President’s Message4
- Back to the Future6
- 2012 Activities8
- Management Discussion and Analysis 12
- Auditor’s Report.....21
- Consolidated Financial Statements23



Board & Committees

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Chair's Message

Few regions anywhere place greater trust in, and demand on, a safe and reliable supply of electric power than Canada's North.

Our harsh climate, vast geography and stand-alone infrastructure continually stretch the operating limits of power systems and the people whose job it is to keep the lights on across the Northwest Territories. That's why the companies that make up the Northwest Territories Hydro Corporation (NT Hydro) are working so hard to improve and expand existing power supplies and help to develop new sources of clean, affordable renewable electricity that will power the future.

As a Crown corporation owned by the Government of the Northwest Territories, NT Hydro implements the government's Hydro Strategy. We fulfill our broad mandate through forward-looking companies that operate both in regulated and unregulated environments.

Within the regulated framework, Northwest Territories Power Corporation (NTPC) generates and delivers electricity from both

hydro and fossil fuel sources. Hydropower already accounts for about three-quarters of NTPC's generation. We want to increase our reliance on clean energy by partnering with Aboriginal governments, communities and the private sector. Our recent solar energy system installation in Fort Simpson is a great example and we're also using excess electricity from the Taltson hydro site to heat buildings in Fort Smith.

On the unregulated side of the business, Northwest Territories Energy Corporation (NT Energy) works closely with the GNWT to find and develop new sources of renewable power in the NWT that are both local and affordable. Its work is helping to lead the way into a future where more of the territory's energy supply will be renewable and the benefits of that change will be enjoyed by all NWT residents. Our goal is to limit our exposure to fluctuating oil prices while also reducing our greenhouse gas emissions.

NT Hydro will continue to rely upon our dedicated employees to translate our vision for the future into achievable plans and actions today. The Board of Directors is committed to safely providing cost-effective, reliable power to our customers while continually seeking environmentally responsible renewable solutions.



Brendan Bell
Chairman



President's Message



Emanuel DaRosa
President & CEO

NT Hydro is an organization powered by the ideas, talents and hard work of a dedicated group of people who work and live in communities right across the territory. Huge distances divide our workplaces, but we're all united by a common goal and a shared sense of purpose. Our mission is to meet the electricity needs of the Northwest Territories, today and tomorrow, by generating and distributing reliable power across this land.

We faithfully meet that commitment every day by combining the human potential of our employees, the natural energy of our waterways and a system of independently operated diesel plants that serve the needs of communities beyond the reach of hydro power.

Over the past year, we've continued to work on ways to focus our strengths and resources to become an organization that delivers exceptional value to our customers and our shareholder, the Government of the Northwest Territories. We've been guided on that journey towards excellence by a strategic plan that is comprised of a broad range of measurable initiatives. That plan has allowed us to move forward in many areas such as improving our safety culture, management skills development, improved communication and a robust preventative maintenance program.

How well we perform in creating employee, operational, customer and financial excellence will ultimately determine how successful we are in meeting our customers' and shareholder's expectations.

Our customers judge our performance mainly on the basis of price, reliability and our ability to keep our commitments. We've been working hard and successfully at controlling costs and keeping rates as low as possible. For example, rather than replacing plants, NT Hydro has worked to utilize existing assets or upgraded existing plants to meet current service requirements where possible. NT Hydro has also reduced its financing costs in recent years, both by retiring debt that had been borrowed in a high interest rate environment and by securing new long-term debt at lower rates than had been previously available.

Overall, through active management, we've kept costs at or below inflation. In fact, a recent independent study shows that NTPC (NT Hydro's largest subsidiary) has been managing costs and rates better than many other Canadian utilities.

Government has also called upon NT Hydro to play an important role in helping to implement strategies to develop new, clean renewable energy resources such as wind, solar, geothermal and biomass that can replace costly and environmentally unfriendly fossil fuels. We've undertaken a number of projects in partnership with territorial government departments, community and Aboriginal governments and private industry. Some of those projects are:

- installing the North's largest solar energy system, a 60kW project in Fort Simpson that converts sunlight into enough energy for 10 homes
- residual heat projects in Inuvik and Fort McPherson that use leftover heat from diesel power plants to heat community water and nearby buildings, and
- a program to replace high-pressure sodium streetlights across the territory with long-lasting LED lights as they expire.

We rely upon hydro power, one of the greenest energy sources, to generate about 80 per cent of its total supply of electricity. We're working closely with a number of partners to examine opportunities to expand existing and potential hydro developments in the territory.

Investing in the potential of our human resources will also be critical to our success in meeting the territory's energy needs today and in the future. That's why we've launched a program to recruit more young northerners to our workforce by offering apprenticeships and scholarships.

We also share government's vision of connecting the North and South Slave into a single power grid. Doing so would enable us to maximize the combined hydro potential of the two regions and minimize the need for diesel backup.

While we work with government on that longer term goal, we've also been actively engaged in developing solutions to meet the changing energy requirements of both Norman Wells and Inuvik. NT Hydro has a commitment from Imperial Oil to continue to supply the electricity for Norman Wells. In Inuvik, we're in the process of converting to diesel generation to ensure the

community has a secure supply of electricity while it examines long-term options to replace a dwindling supply of natural gas that has met that need until now.

Elsewhere in the NWT, we continued to address other important challenges to our ability to provide a secure and reliable supply of electricity. Starting in the fall of 2012, residents of the Yellowknife area will benefit from our \$37.4 million investment in the new Bluefish Hydro Dam. The dam replaces the aging structure that was in danger of failing.

We're also addressing the issue of reliability on the Yellowknife system in 2012. A comprehensive set of improvement initiatives will enable us to work towards a target of increasing reliability by 70 per cent over three years.

I'm confident that we will achieve that objective and the many others that lie in front of us. That's because we're an organization powered by people who take our responsibilities very seriously, care about the future and who will continue to work hard every day to deserve the trust of the people we serve.



Back to the Future



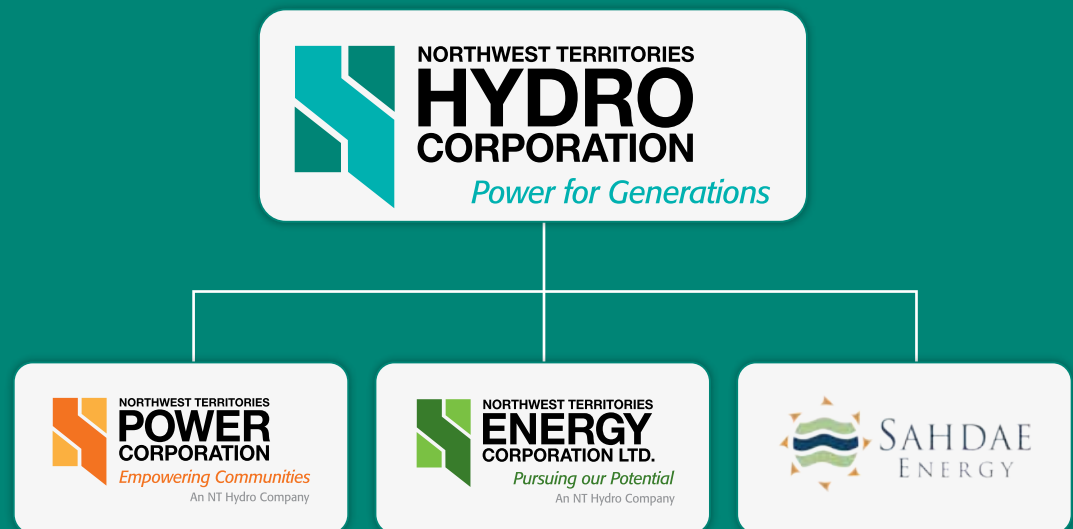
Chances are that when you woke up this morning and poured your first cup of coffee you were benefitting from decisions taken 70 years ago. It was in 1941, that the owners of Yellowknife Cominco Mine began construction of the Bluefish hydro facility. Less than a decade later, the Northern Canada Power Commission, assisted by funding from the federal government, constructed the first Snare hydro plant to provide power for Giant Mine.

In 1965, the federal government invested \$100 million to construct the hydro generating plant on the Taltson River to provide power to Pine Point mine and surrounding communities. Collectively, these investments, which provided the foundation for a mining industry, have now become the main source of power for residents living in Yellowknife, Fort Smith, Fort Resolution and Hay River. It's

not by accident that these communities have led the NWT in economic growth. Fast forward to 2012. Today, almost three-quarters of the power generated by NTPC is clean, renewable hydro electricity.

Now, a half-century from commissioning that first hydro plant, the Government of the Northwest Territories has embarked on another journey to expand the energy supply system through the NT Hydro Corporation. The GNWT created the NT Hydro Group of Companies through an Act of the Legislature in 2007.

To get to the future, the government recognized the need for an electricity sector that could respond to policy, implement renewable energy projects and take advantage of opportunities outside of the regulated utility arena. NT Hydro is a Crown corporation, wholly owned by the GNWT. It has two subsidiaries, the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation (NT Energy). Each has a different role in the market. This structure is a significant departure from the past.



- ▶ It was in 1941, that the owners of Yellowknife Cominco Mine began construction of the Bluefish hydro facility.
- ▶ To get to the future, the government recognized the need for an electricity sector that could respond to policy, implement renewable energy projects and take advantage of opportunities outside the regulated utility arena.
- ▶ Our history may be hydro, but our future needs to include a multitude of solutions: wind, biomass, geothermal, solar and natural gas.

While NTPC continues to operate as a fully regulated utility under the watchful eye of the Public Utilities Board, NT Energy is exploring ways to develop local, affordable, and renewable energy projects in the NWT. Displacing imported diesel with local sources of energy supply is important for the economy and critical to the long-term sustainability of NWT communities.

NT Energy is funded outside of the NTPC's regulated operations to ensure ratepayers are not exposed to the costs of developing new sources of electricity.

While most of the existing hydro infrastructure in the NWT is a direct result of federal and private sector investment, NT Energy is working to build on this legacy through the development of the NWT's extensive hydro and renewable energy potential.

Our history may be hydro, but our future needs to include a multitude of solutions: wind, biomass, geothermal, solar and natural gas are part of the solution for NWT communities.

Working with communities and Aboriginal governments to explore local energy solutions is NT Energy's focus. It takes time to understand the costs, benefits and challenges to develop utility-scale community energy projects. NT Energy has started down the path by gathering information to help residents and communities understand their options and participate actively in the discussion.

NT Energy also works to develop larger projects for industry and transmission links to communities.

It may take another 80 years from that first investment in 1941 to redefine and develop a new electricity portfolio; transformed from reliance on imported fossil fuels to one built on local and/or renewable resources.

We only need to look to the past to see what's possible in the future.



2012 Activities

BECOME A CENTRE
OF EXCELLENCE
IN THE NORTH

Every year, NT Energy leads and supports a variety of energy projects for territorial government departments, Aboriginal and community governments, and private industry. The Corporation's goal is to become a centre of excellence, providing feasibility and technical oversight on both community-based and large-scale projects.

Bear River Hydro Study

NT Energy concluded work with the Deline Land Corporation (DLC) to investigate a potential hydro project on the Great Bear River. There is potential to develop small scale run-of-river projects, with the smallest suitable size being 700 kilowatt (enough to meet Deline's electrical needs), up to a larger 9 megawatt project, which would be suitable for regional power needs. The estimate for a 700 kilowatt project is roughly \$30 million.

Bear River - Traditional Knowledge and Aquatics Study

The traditional knowledge study weaves together existing documentation as well as stories and knowledge shared on 12 key topics.

Fieldwork was conducted to understand the fish community and aquatic environment of the Bear River. This information will be used to establish baseline conditions assuming future hydroelectric development. An excellent aquatic database has been collected at specific locations along the Great Bear River. NT Energy now has sufficient information to develop a statistically defensible baseline-sampling program.

This would include studies involving water chemistry, benthic invertebrates and fisheries. The goal is to have sufficient and appropriate data to understand the conditions of the Great Bear River from both a traditional knowledge and scientific perspective so that any future plans for hydroelectric development may be implemented with minimal impacts on the environment, including people, in the Sahtu region.

NT Energy Strategy Implementation

A few of the key initiatives included:

- A site visit to Nuuk Greenland's 45-megawatt underground hydro facility – which provides power and heat for the Inuit community of Nuuk
- A Community Awareness outreach program in the Sahtu, Gwichin, Dehcho and Inuvialuit regions to discuss hydro and energy issues generally and NT Energy's interests in working with communities to explore local, renewable sources of energy
- Ongoing water gauging of the Barnston, Waldron, Beaulieu and Hoarfrost Rivers; and



As new and emerging industries are developed in the NWT, it will be important to understand where sources of hydro power are located, the generation potential and distance to market.

- A regional hydro assessment of the Gwich'in and Inuvialuit Settlement Region. The assessment focused on identifying community and industrial scale hydro potential in both regions. Both regions have limited potential, but the Gwich'in region has some hydro potential on the Mackenzie, Peel and Arctic Red rivers. In the Inuvialuit region, some local potential was identified near Ulukhaktok.

Taltson Southern Grid Study

NT Energy has been working to identify private sector partners to invest in the Taltson Project. Alberta has been considering transmission and hydropower expansion to offset decommissioned coal-fired plants and meet growing energy demand in the province. Preliminary work was developed to consider a plant design and transmission line routing options that would maximize energy revenues from the Alberta market. Additional energy modeling was prepared to demonstrate the peak power potential for the Twin Gorges site including a range of installed capacities of 60, 80 and 100 MW.

North Slave Market Study

The study examined technical issues, routing and cost estimates for expanding the Snare line to bring new generation sources (La Martre hydro) and industrial customers (e.g. Nico and Nechalacho mines) online, including expected impacts on system stability.

La Martre Falls Hydro Feasibility

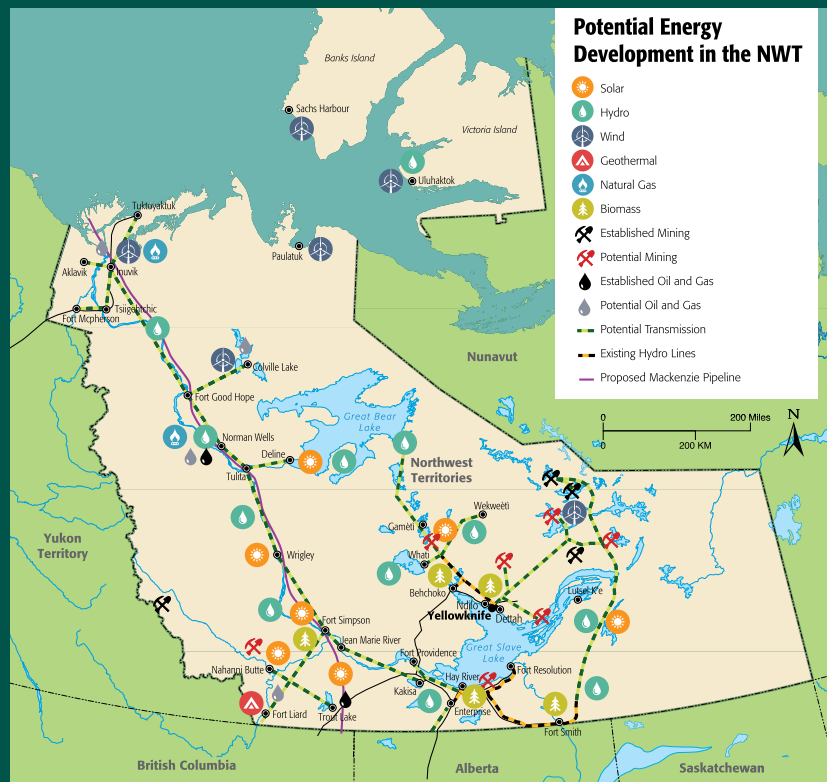
The Tlcho Investment Corporation (TIC) hired SNC Lavalin to finalize the feasibility work on the 6-13 MW run-of-river project at La Martre River Falls. TIC completed the feasibility study report in March 2012, which includes detailed engineering design, projected capital costs and potential environmental impacts. No further work is planned on project feasibility given that there is no clear market for the

power. NT Energy and TIC have agreed to focus efforts on advancing the development of a transmission line between the Snare system and Wha Ti, to serve the load and displace diesel in the remote community.

Site-Specific Hydro Development

As new and emerging industries are developed in the NWT, it will be important to understand where sources of hydro power are located, the generation potential and distance to market. NT Energy issued a Request for Proposals that closed in August 2011. AECOM was the successful bidder and was hired to conduct site-specific hydro potential investigations of six rivers in the NWT.

NT Energy and AECOM conducted field surveys on the Beaulieu, Petitot, Redstone, Mountain, Keele and Carcajou rivers in September 2011 to collect field data and survey potential project sites. A field study report was prepared in October 2011. A final report, detailing hydro potential at specific sites along the selected rivers, including preliminary schemes for development, was issued on December 22, 2011.



2012 Activities


(CONTINUED)

Fort Liard Geothermal Project

NT Energy retained geothermal experts Sinclair Knight Merz (SKM) based out of New Zealand to perform the due diligence on the project in order to ensure that the geothermal work met industry standards. Funding for the review was provided through a contribution agreement by the Department of Environment and Natural Resources. The work under review included the proponent's geothermal resource assessment, preliminary well design, cost estimate and financial

model. SKM has confirmed that the project is technically feasible and similar to other successful geothermal projects. However, the firm found that the engineering design and technical level of detail was lacking in order to move the project into drilling and construction. Significantly more work is needed to prepare documents that are appropriate for tender for Engineering, Procurement and Construction contracts. SKM identified some specific elements that should be further detailed by the proponent to better determine the costs and level of risks for the various stages of the project. NT Energy actively managed the due diligence work and engaged with the project proponent to develop a financial model, provide updates to the GNWT's Energy Coordinating Committee, considered potential project structures and options for the GNWT to consider.





THIS VISION, WHICH WOULD TAKE 20 TO 30 YEARS TO FULLY ACHIEVE, IS A TRANSMISSION SYSTEM CONNECTING MUCH OF THE NWT WITH THE CONTINENTAL GRID.

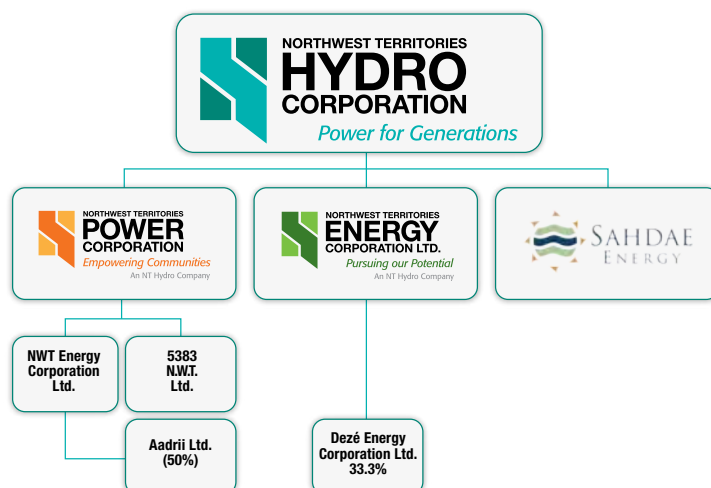
Management Discussion and Analysis

The electricity industry in the Northwest Territories experiences constant change. Financial, operational, environmental and regulatory pressures, combined with issues related to aging infrastructure, continue to challenge the management of utilities throughout Canada and elsewhere. The following Discussion and Analysis is intended to provide a historical and prospective analysis of Northwest Territories Hydro Corporation's (NT Hydro) 2011/12 financial performance. Management assumes full responsibility for the information provided in this Discussion and Analysis and confirms that appropriate information systems, procedures and controls are in place to ensure that the information provided is both complete and reliable. These comments should be read in conjunction with the Consolidated Financial Statements included in this report.

NT Hydro (the Corporation) Operations (\$000s unless otherwise noted)

NT Hydro is a public agency, established in 2007 under the Northwest Territories Hydro Corporation Act, and owned 100% by the Government of the Northwest Territories (GNWT/Shareholder). NT Hydro owns 100% 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 and alternative energy on an unregulated basis while allowing the regulated utility to focus on the core business of providing electricity services.

Figure 1 – NT Hydro Corporate Structure



NT Hydro, through its wholly-owned subsidiary, NTPC, operates hydroelectric, diesel, natural gas and solar power generation facilities 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 MW hydro facility. NTEC is also responsible for the operation, management and shared ownership (50%) of one residual heat project in Fort McPherson. 5383 NWT Ltd. is an inactive company. NTPC activities are regulated by the Northwest Territories Public Utilities Board (PUB).

In 2011/12, the major emphasis of NT Hydro's non-regulated subsidiary work has shifted from the Taltson expansion project to provide hydro power to the diamond mines. While the expansion project is still being pursued in terms of optimizing the North's hydro potential, the supply of hydro power to the diamond mines is no longer being actively pursued. As a result, the unregulated arm of NT Hydro played a greater role in assessing alternative energy initiatives through work that was funded by the Shareholder. The Corporation has established a provision to recognize the uncertainty of the investment to date in the Taltson expansion project and will monitor the project and adjust as required as new information becomes available. Further explanation of the provision for Taltson investment is provided in the financial discussion below.

With no positive movement on the Mackenzie Valley Pipeline, SEL was inactive in 2011/12 as its primary purpose is to explore opportunities to power the pipeline.

With the new strategic planning that was completed in 2011/12, NT Hydro reverted to the holding company that was originally envisioned when it was established by legislation. Two business units of the company, NT Energy and NTPC, were structured to deliver the corporate mandate. Each of these business units was further distinguished by separate Vision and Mission statements, as follows:

NT Energy Vision, Mission and Values (inclusive of NTEC (03))

Vision

NT Energy aspires to be a center of excellence, leading in the development of local and renewable energy sources in the NWT for the benefit of all residents, communities and Aboriginal governments.

Mission

To plan and develop safe and environmentally responsible energy projects to serve existing and new energy requirements in the NWT.

Values and Guiding Principles

In achieving our Vision and Mission, we will:

- Act ethically and honestly, treating employees, partners, and others with fairness, dignity and respect;
- Respect and protecting the environment in all our activities to ensure a sustainable environment for the NWT and northerners;
- Operate in an economically efficient manner;
- Communicate in an open and timely manner;
- Work in partnership with communities and Aboriginal governments to assess and develop local and renewable energy sources in the NWT;
- Be a source of expertise in project management, environment, engineering and economics in relation to hydro and renewable energy development;
- Work to develop hydro and renewable energy resources in an environmentally responsible manner; and
- Prioritize developments that aid in extending NWT transmission to link more NWT communities.

NTPC

Vision

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

Mission

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

Values and Guiding Principles

In achieving our Vision and Mission, we will:

- Communicate in an open and timely manner;
- Be cost effective in the utilization of all resources, always remembering that we are spending the customer's money;
- Be responsive to our customers and their changing needs;
- Act ethically and honestly treating employees, customers and others with fairness, dignity and respect;
- Commit to the safety of our employees and the public;
- Respect and protect the environment in all our activities to ensure a sustainable environment for the NT; and
- Strive to increase Shareholder value in the long term.

Strategies and Objectives for 2011/12 (\$000s unless otherwise noted)

NT ENERGY (includes NTEC(03) Ltd.)

While expansion opportunities are still being explored for the Taltson hydro expansion project, the likelihood that the project will proceed is difficult to quantify as of March 31, 2012. The original plan to provide hydro power to the diamond mines is no longer being actively pursued. The work related to generation expansion feasibility that was completed to date will be held for future use if loads closer to the source or other transmission opportunities arise. For accounting purposes, the Taltson assets were considered impaired and an impairment provision was recorded in the 2011/12 financial statements.

A mini-hydro project previously capitalized in NT Hydro at \$388 was also deemed to be impaired for accounting purposes.

The gross assets impairment for both projects was \$14,625 and the related deferred government funding was \$14,185. The net provision for impairment of \$440 was recorded in the 2011/12 financial statements.

NT Energy's five-year plan builds on the principles of the NWT Hydro Strategy, NWT Energy Plan, NWT Water Stewardship Strategy and the Greenhouse Gas Strategy. This plan proposes to continue important exploratory work and to identify a host of potential energy options for the NWT as part of an energy road map for the future. The long-term vision is to harness cost-effective, local energy supply sources and, where possible, to integrate this energy supply into an expanded grid system in the NWT.

For example, working with private and public sector partners, NT Energy is evaluating the feasibility of studies done on a potential geothermal heating project in Fort Liard and on wind-powered generation in the Inuvik region.

NTPC

NT Hydro set objectives and strategies for NTPC in 2011/12 to be efficient and effective emphasizing employee, operational, customer service and financial excellence to improve reliability and cost-effectiveness, while meeting commitments. These strategies are aimed at delivering customer and shareholder value.

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 two distributing utilities which, in turn, retail electricity to customers in Yellowknife and the Hay River area. NTPC's facilities include hydroelectric, diesel, and natural gas generation plants, 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 Corporation's systems serve a population of approximately 43,000 located in an area of 1.3 million square kilometres. The insert map (reference Figure 2) illustrates the operating area of NTPC and highlights the isolation of many of the communities that NTPC serves – some accessible only by air, barge or winter road.

The peak electrical load is approximately 66 MW, with isolated power systems with generating capacities ranging from 64 MW at Snare/Yellowknife zone to 230 kW at Jean Marie River and Nahanni Butte. With the exception of two grids, in the north and south Great Slave areas these systems are unconnected and each must be planned for and operated independently.

Figure 2 – NTPC Operating Area



Environment and Safety

The Corporation continues to deliver services in an environmentally responsible manner with reductions in both the number and volume of hazardous material spills in 2011/12 over 2010/11. In 2011/12, NTPC had 12 hazardous material spills (2010/11 – 16). The total volume spilled in 2012 was 882 litres, compared with 995 in 2010/11. All spills were contained and cleaned up to the satisfaction of the regulators, with no further action required on behalf of the Corporation.

The Corporation's five-year accident severity rate increased from four lost-time days per 200,000 hours in 2010/11 to twenty five in 2011/12. NTPC continues to work on its safety orientation program, adding an interactive teaching and testing tool, increasing emphasis on site-specific orientation and expanding our policies to include contractors. The Corporation's objective remains to be accident free and we will continue to emphasize safety in the years ahead.

Reliability, Customer Service and Energy Conservation

Under the objectives of improved reliability and quality customer service, NTPC responded to numerous challenges during the year. The Corporation worked closely with customers to minimize impacts and prevent third-party damages. In 2011/12, the average customer was without power for 4.20 hours, compared with 7.74 for 2010/11. When the lights did go out, the average time to restore power was 25 minutes, compared with the 32 minutes it took to restore power in 2010/11. The Corporation initiated a number of steps to improve reliability in 2011/12, with a stronger focus on the root cause of outages to prevent further occurrence.

The Corporation is also motivated to provide high-quality customer service, education and communication. NTPC's customer service satisfaction survey in 2011 indicated overall satisfaction of 87%, which is top quartile performance when compared with peers in the Canadian Electricity Association.

The Corporation will continue to focus on providing reliable services to our customers, communicate on a timely basis on matters of importance, seek out opportunities to collaborate to lower costs by improving communications with community and aboriginal governments, work with customers in an effort to assist them to lower their power bills and achieve a level of service such that customers equate NTPC with a company that delivers on its commitments.

Cost-Effective Energy

When it comes to generation source, renewable hydroelectricity represents by far the greatest source of power for NTPC customers. In 2011/12, hydro power held steady at 74% of the total power generated. With no grid, hydro is available to communities only in the southern part of the territory. Diesel generation remains the most cost-effective way to provide safe, reliable power to small communities.

The Corporation has fuel stabilization funds that track the difference between forecast fuel costs, used for rate setting purposes and the actual fuel costs. A stabilization fund is also in place to capture the financial impacts of low water on hydro generation potential. These funds flow through the costs or benefits to customers when the actual costs vary from what is collected through rates.

The Corporation continued to work with the GNWT and PUB during 2011/12 to implement the recommendations from the GNWT's report: *Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System*. In 2011/12, the GNWT contributed \$8,957 on behalf of customers towards excess fuel costs (2010/11- \$3,000) and there were no rider collections from customers (2010/11 - \$6,838).

Profitability and financial strength

NTPC's return on equity for 2011/12 was slightly lower than prior period at 3.8% (2010/11 – 3.9%). In December 2010, utility rates were rebalanced and reduced overall when the Shareholder agreed to accept a lower return from communities whose primary generation is from thermal sources.

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

Performance Indicator	Entity	2011/12 Results	2010/11 Results
Current Ratio	NT Hydro	.74	.98
Capitalization ratio (debt is net of sinking fund balances)	NT Hydro	61/39	62/38
Plant Efficiency (kWh per liter fuel)	NTPC	3.56	3.53
Operating Expenses/MWh sold (\$)	NTPC	\$224	\$223
Operating Expenses (excluding fuel and amortization)/MWh sold (\$)	NTPC	\$114	\$116
Safety – Average lost workdays per 200,000 hours worked (calendar reporting)	NTPC	25	4
System Availability:			
Outage hours/customer	NTPC	4.20	7.74
Average outage time (minutes)		25	32

The current ratio is below 1 and is a sign that working capital is insufficient. Since the Corporation had no rate increases in five years, opportunities to improve working capital were limited. This situation is not sustainable and the Corporation is planning to convert its short term debt to long term in 2012/13 and filed a general rate application in March 2012 which will improve the current ratio in 2012/13.

The Corporation's safety performance declined over the previous year, going from 4 to 25 lost workdays per 200,000 hours worked. Initiatives aimed at improving the safety performance are included in NTPC's 2012-14 Strategic Plan.

The remaining indicators remained steady or improved over the previous year.

Meeting our workforce needs

As with many utilities operating in North America, the Corporation faces continual challenges to attract and retain skilled staff in an environment of labour shortages, particularly in the trades and engineering fields. Strategies for fulfilling goals in this area are under continual review and the Corporation is looking at options such as employee development, better tools for gauging employee satisfaction, and a northern talent development program that includes the addition of apprentices in hard-to-staff trades positions.

Energy Planning and Renewable Energy

NT Hydro continues to work with the GNWT to explore other alternative energy sources to reduce diesel generation. In 2011/12, the GNWT provided approximately \$3,415 to NT Hydro and its subsidiaries (2010/11 - \$4,583) towards these initiatives. NTPC used \$700 from this source to place a 60kW solar energy project at Fort Simpson Airport that was commissioned in February 2012. The largest solar project of its kind in the North, Alberta or Saskatchewan, it has capacity to produce up to 8.5% of the community's power requirements in summer.

NT Hydro (parent)

In the future, NT Hydro will operate more like a traditional holding company and unregulated energy projects and activities will be funded through NTPC and NT Energy (including NTEC(03) and SEL (should SEL become active again in the future).

Consolidated Financial Results (\$000s unless otherwise noted)**Operations**

Net income for 2011/12 was \$3,752, compared with \$3,172 in 2010/11.

The Corporation had electricity sales of \$81,690 in 2011/12, (2010/11 - \$81,676). Sales to our wholesale customers were approximately \$1,617 (5.6%) higher than 2010/11. Sales to our residential and commercial customers were down \$1,607 (3.2%) from 2010/11. Industrial and streetlight revenue growth showed modest increases.

Operating expenses for 2011/12 (net of other government assistance) were \$70,025 (2010/11 - \$70,728) down \$703 (1.0%) from 2010/11. Restraint initiatives were a major contributor to the reduction from prior year. Recognizing that many of the restraint actions were not sustainable in the long term, NTPC filed a general rate application to adjust rates to reflect current costs.

Interest expense in 2011/12 was relatively unchanged at only \$76 lower than 2010/11. Gross interest expense was \$400 lower due to a debt retirement. Income from the sinking funds and loans receivable was \$1,652 lower due to the debt retirement and lower returns in the fund. Capitalized allowance for funds used during construction (AFUDC) was \$1,328 higher due to a higher invested balance in capital work in progress.

As indicated earlier, a net impairment provision of \$440 was recorded in 2011/12 related to the Taltson Expansion project assets of NTEC (03) and the mini-hydro assets of NT Hydro.

Financing Activities

In 2011/12, NTPC retired a \$15,000 debenture and repaid an additional \$1,316 of long term debt by way of scheduled repayments. The retirement was fully funded from sinking funds. NTEC (03)'s short-term debt of \$4,126 was repaid using a contribution from the GNWT.

Capital Expenditures

Each year, the Corporation makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. Capital investment levels in 2011/12 were approximately 15% higher than 2010/11. (\$29,131 in 2011/12 vs. \$25,232 in 2010/11) The majority of projects were to maintain or improve reliability.

The Bluefish dam construction project continued in 2011/12 and represents the largest capital project in recent history, with a total budget of \$37,400. The new dam is located downstream from the existing dam and is being constructed while the current dam continues to operate and provide hydro power to the Yellowknife area. This project is expected to be substantially completed by fall 2012.

Outlook for 2012/13

The Corporation filed its General Rate Application (GRA) in March 2012 and interim rates approved in May 2012 were effective May 1, 2012. The rates proposed in the GRA are expected to return the Corporation to a position where it can fully cover its operating costs and earn a fair return on equity in the hydro zones in accordance with the rate guidelines set by its shareholder. Rates are subject to regulatory approval and are expected to be finalized in the fall of 2012. Higher fuel costs, amortization on our investment to replace aging infrastructure, and inflationary increases make up the majority of the increase in revenue requirement. NTPC applied to phase in the rate increases over a 4-year period from 2012/13 through 2015/16. The Government of the Northwest Territories has committed to provide \$33,800 in financial assistance to mitigate the impact of rate increases on customers by holding increases to no more than seven per cent over the next three years and five per cent in 2015/16.

In 2011/12 NTPC was advised that the gas supply in Inuvik was in crisis. The Corporation has commenced a project to replace the natural gas generation with diesel generation in the short term until the potential for gas in the future is known. By voluntarily switching from gas to diesel generation, NTPC allowed the community up to two years of gas supply, time desperately needed in order to determine the energy future of this Arctic community. This will add to costs, both in terms of the capital investment and in the ongoing fuel cost differential from switching from gas to diesel.

The Corporation is planning to borrow an additional \$25,000 in long-term debt next year to reduce its short-term borrowing and improve working capital.

The Corporation's strategy for 2012/13 and beyond will focus on achieving employee excellence, operational excellence, customer service excellence and financial excellence. Long term, the Corporation will continue to measure and be guided by its overall performance in areas that matter most to customers: reliability of supply, cost effectiveness (price) and meeting commitments made. Following this strategy will also enable the Corporation to continue to create optimum value for its shareholder.

NT Energy (including NTEC(03)) will continue to focus on exploratory work in the near term, seeking to quantify and define available alternative energy resources, educate about opportunities and work in partnership with stakeholders to examine local and regional energy options at a community and regional scale.

Respectively submitted



Judith Goucher
Chief Financial Officer

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
President & CEO


Judith Goucher
Chief Financial Officer

Hay River, NT
July 20, 2012



Auditor General of Canada
Vérificateur général du Canada

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, which comprise the consolidated balance sheet as at 31 March 2012, 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 as at 31 March 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of the Northwest Territories, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Northwest Territories 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 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 regulations, 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 Auditor General of Canada

20 July 2012
Edmonton, Canada

		Consolidated Balance Sheet	
		As at March 31	
		(\$000's)	
		2012	2011
Assets			
Current assets			
Cash	\$	1,368	\$ 2,614
Accounts receivable (Note 5)		18,834	15,117
Inventories (Note 6)		4,162	4,428
Prepaid expenses		661	2,802
Current portion of sinking fund investments (Note 8)		20,000	15,000
		<u>45,025</u>	<u>39,961</u>
Property, plant and equipment, net (Note 7)		312,021	307,067
Other non-current assets			
Regulatory assets (Note 3)		18,428	16,226
Sinking fund investments (Notes 8, 11)		5,052	23,726
Intangible assets (Note 9)		1,016	1,268
		<u>24,496</u>	<u>41,220</u>
	<u>\$</u>	<u>381,542</u>	<u>\$ 388,248</u>
Liabilities and Shareholder's Equity			
Current liabilities			
Accounts payable and accrued liabilities	\$	22,179	\$ 19,332
Short-term debt (Note 10)		16,351	5,466
Current portion of long-term debt (Note 11)		22,184	16,316
		<u>60,714</u>	<u>41,114</u>
Long-term debt			
Long-term debt, net of sinking fund investments (Note 11)		138,379	146,783
Sinking fund investments presented as assets (Note 8)		25,052	38,726
Net lease obligation (Note 12)		2,028	1,811
		<u>165,459</u>	<u>187,320</u>
Other non-current liabilities			
Regulatory liabilities (Note 3)		40,145	40,502
Asset retirement obligations (Notes 13, 14)		6,780	4,674
Deferred government contributions (Note 15)		2,852	12,009
Employee future benefits (Note 16)		1,525	1,793
		<u>51,302</u>	<u>58,978</u>
Shareholder's equity		104,067	100,836
	<u>\$</u>	<u>381,542</u>	<u>\$ 388,248</u>

Commitments and contingencies (Note 22)

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

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

	2012	2011
Revenues		
Sale of power	\$ 81,690	\$ 81,676
Other revenues (Note 17)	1,468	1,175
	83,158	82,851
Expenses		
Salaries and wages	21,786	21,930
Fuels and lubricants	19,155	18,852
Amortization (Note 18)	15,225	14,719
Supplies and services	14,101	14,987
Travel and accommodation	2,070	2,529
	72,337	73,017
Earnings from operations	10,821	9,834
Snare transmission line damages (Note 5)	(1,739)	-
Cost recovery (Note 5)	1,739	-
Interest income	233	275
	11,054	10,109
Earnings before interest expense	11,054	10,109
Interest expense (Note 19)	9,174	9,250
	1,880	859
Income before fuel riders and government assistance		
Fuel rider revenues (Note 3)	-	6,838
Government contributions in lieu of fuel riders (Note 3)	8,957	3,000
Offsetting fuel expenses (Note 3)	(8,957)	(9,814)
	-	24
Impairment provision (Note 7)	14,625	-
Government funding revenues associated with impairment provision (Note 15)	14,185	-
Net expense	440	-
Other government assistance (Note 20)	2,312	2,289
Net income	\$ 3,752	\$ 3,172

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

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

	<u>2012</u>	<u>2011</u>
Net income	\$ 3,752	\$ 3,172
Other comprehensive income (loss)		
Reclassification adjustment for realized gains on sale of available-for-sale financial assets included in net income	(633)	(1,798)
Unrealized (losses) / gains on available-for-sale financial assets arising during the year	<u>112</u>	<u>1,397</u>
Other comprehensive loss	<u>(521)</u>	<u>(401)</u>
Comprehensive income	<u>\$ 3,231</u>	<u>\$ 2,771</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>2012</u>	<u>2011</u>
Share capital (Note 21)	\$ 43,129	\$ 43,129
Retained earnings		
Retained earnings at beginning of year	57,186	54,014
Net income	<u>3,752</u>	<u>3,172</u>
Retained earnings at end of year	<u>\$ 60,938</u>	<u>\$ 57,186</u>
Accumulated other comprehensive income		
Accumulated other comprehensive income at beginning of year	\$ 521	\$ 922
Other comprehensive loss	<u>(521)</u>	<u>(401)</u>
Accumulated other comprehensive income at end of year	<u>\$ -</u>	<u>\$ 521</u>
Shareholder's equity at end of year	<u>\$ 104,067</u>	<u>\$ 100,836</u>

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

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

	<u>2012</u>	<u>2011</u>
Operating activities:		
Cash receipts from customers	\$ 81,953	\$ 91,724
Government assistance (Notes 3, 20)	8,198	4,955
Cash paid to suppliers and employees	(64,517)	(69,108)
Interest received	233	275
Interest paid	(12,634)	(12,700)
Cash flows provided by operating activities	<u>13,233</u>	<u>15,146</u>
Investing activities:		
Property, plant and equipment constructed or purchased	(29,131)	(25,232)
Cash flows used in investing activities	<u>(29,131)</u>	<u>(25,232)</u>
Financing activities:		
Repayment of long-term debt	(16,316)	(1,295)
Proceeds from sinking fund redemption	15,751	-
Net proceeds from (repayments of) short-term debt	10,886	(33,173)
Government contributions (Note 15)	6,079	2,026
Sinking fund instalments	(1,964)	(2,961)
Receipts from net lease obligation	216	159
Dividend paid	-	(3,500)
Proceeds from long-term debt (net of debt issue costs)	-	49,750
Cash flows provided by financing activities	<u>14,652</u>	<u>11,006</u>
Net (decrease) increase in cash	(1,246)	920
Cash at beginning of year	<u>2,614</u>	<u>1,694</u>
Cash at end of year	<u>\$ 1,368</u>	<u>\$ 2,614</u>

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

1. Authority and operation

The Northwest Territories Hydro Corporation (NT Hydro or the Corporation) 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 (Note 12). NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson (Note 25). 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. 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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

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.

On March 23, 2012 NTPC filed a GRA with the PUB for the Test Years 2012/13 and 2013/14. Within this application, NTPC is requesting the PUB set rates based on a proposed revenue requirement of \$102,500 in 2012/13 and \$107,500 in 2013/14. The proposed revenue requirement includes a fair rate of return of 8.5% for the Test Years 2012/13 and 2013/14. The allowed rate of return and all other aspects of the GRA will be reviewed and tested by the PUB with a final decision expected in October 2012. The GNWT will mitigate the impact of rate increases on customers over a three year period by providing subsidies to the Corporation— see note 26 for additional information.

NTPC also filed an interim rate application (IRA) with the PUB on March 23, 2012. Since GRAs can take many months to complete, IRAs are designed to implement rates on a temporary and refundable basis while a GRA is reviewed. If the PUB's final decision indicates final rates should be higher or lower than interim rates, a refund or surcharge is applied to customers accordingly. NTPC's current IRA proposes rate increases for all customer groups in all communities by 7.0%. On May 7, 2012 the PUB approved the IRA for the fiscal 2012/13, with interim rates effective for May 1, 2012.

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

includes an accrual for electricity sales not yet billed. Interest, contract, contribution and other revenues are recognized on the accrual basis.

Property, plant and equipment and intangible assets

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

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

As a result of using the average group useful life method of accounting for amortization, when an asset is retired or disposed of, the retirement of these assets is charged to accumulated amortization with no 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 3). 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 3.

Amortization rates are as follows:

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

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 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 Corporation filed a GRA in March 2012 and an amortization study was included as part of that filing. Rates resulting from that filing and the associated amortization rates have not been approved to date. See Note 3 for additional details.

Inventories

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

Public Service Pension Plan

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

Employee future benefits

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

Asset retirement obligations

On an annual basis, 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.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

The fair value of the estimated asset retirement obligations is recorded as a liability under other non-current liabilities with an offsetting charge recorded against the regulatory liabilities – reserve for future removal and site restoration as described in Note 3. The liability for asset retirement obligations is increased annually for the passage of time by calculating accretion (interest) on the liability using 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 government contribution on the balance sheet. Contributions stemming from contribution agreements with the GNWT and 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. Amortization of deferred government contributions is netted against amortization expense on the statement of operations. Contributions from the GNWT previously deferred against the construction work in progress balance held in NTEC03 for the Taltson Expansion Project have been recorded as revenue in 2011/12 as an offset against the provision made for the impairment of the value of the work completed to date on this project. See notes 7 and 15 for additional details.

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

All other government contributions are recognized as revenue in the year the contributions are spent. See Note 20 for additional details.

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.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

Management's estimates and assumptions, regarding regulatory assets and liabilities and the timing of NTPC's ability to recover the cost of these assets through future rates, are subject to decisions of the PUB as described in Note 3.

Financial instruments

The financial instruments of the Corporation include financial assets classified as held for trading or loans and receivables and financial liabilities classified other financial liabilities.

Held for trading

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

Loans and receivables

Financial assets that are not actively traded are required to be classified as loans and receivables and accounted for at amortized cost using the effective interest rate method. 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.

Other financial liabilities

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

Other policy decisions:

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. Depending on the type of derivative, changes in fair value are recognized in either net income or to regulatory deferral accounts. There are no derivative contracts outstanding at the end of the year (2011 – nil).

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

(b) Future accounting changes

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed that the transition to International Financial Reporting Standards (IFRS) from Canadian GAAP will be required for publicly accountable entities for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for fiscal periods beginning on or after January 1, 2010.

In October 2010 the AcSB announced a one year deferral to implement IFRS for rate-regulated entities to January 1, 2012. In March 2012, the AcSB decided to extend the IFRS deferral for rate-regulated entities by one year to January 1, 2013. As such, NT Hydro will be required to issue its first IFRS financial statements for its fiscal year ending March 31, 2014 with comparative figures for the fiscal year ending March 31, 2013.

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.

3. 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.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

Regulatory assets

	<u>2012</u>	<u>2011</u>	<u>Remaining recovery period</u>
Normalized overhaul costs	\$ 5,487	\$ 3,584	Determined by PUB
Water licensing deferral account	5,262	1,397	Determined by PUB
Regulated employee future benefits	4,172	3,787	Determined by PUB
Reserve for injuries and damages	2,423	2,861	Determined by PUB
Other regulatory assets	634	397	Determined by PUB
Regulatory costs	450	515	Determined by PUB
Rate stabilization funds	-	3,685	Determined by PUB
	<u>\$ 18,428</u>	<u>\$ 16,226</u>	

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

	<u>2012</u>	<u>2011</u>
Water licensing deferral account	\$ 3,865	\$ 314
Rate stabilization funds	(3,685)	(6,446)
Normalized overhaul costs	1,653	(32)
Reserve for future removal and site restoration	943	(1,172)
Equity component of AFUDC	1,014	673
Deferred revenues	(586)	(475)
Reserve for injuries and damages	(439)	272
Regulated employee future benefits	385	185
Other regulatory assets	237	80
Regulatory costs	(65)	(401)
Capitalized fuel	(39)	(39)
Snare Cascades deferral account	-	(2)
Net increase (decrease) in net income due to rate regulation	<u>\$ 3,283</u>	<u>\$ (7,043)</u>

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

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 \$2,860 (2011 - \$1,226) and annual amortization expense would increase by \$486 (2011 - \$435) as a result of an increase in the balance of property, plant and equipment of \$796 (2011 - \$2,162). 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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

be indeterminate. In fiscal 2012 actual costs deferred to this account totalled \$3,656 (2011 - \$3,388). The net effect of rate regulation on net income was an increase of \$1,653 (2011 – decrease of \$32).

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 2012 totalled \$4,002 (2011 - \$451), including \$3,221 (2011 - \$nil) related to the addition of baseline water study costs used in the Taltson water license renewal application. These studies were purchased by NTPC from NTEC03. These studies were used in the development of the renewal application for the Taltson water license. See Note 7 for additional details on NTPC's purchase of the studies from NTEC03. 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 \$3,865 (2011 – increase of \$314).

Regulated employee future benefits

Regulated employee future benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 16). In the absence of rate regulation, GAAP would require that the actual cost of these employee future benefits be expensed in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$385 (2011 – increase of \$185).

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 2012 actual costs deferred to this account totalled \$231 (2011 - \$942). 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 \$439 (2011 – increase of \$272).

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

Other regulatory assets

Other regulatory assets include costs incurred that create a long-term benefit to customers. These costs are subject to recovery from the customers through PUB decisions. In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The remaining recovery period is indeterminate as the amounts deferred to the various accounts depend on what issues arise during the year. The amortization of the various accounts to deferred charges is done on a straight-line basis over periods ranging from 5 to 10 years. Consequently, in the absence of rate regulation, operational expenses would increase by \$264 (2011 - \$107) and annual amortization expense would decrease by \$27 (2011 - \$27). The net effect of rate regulation on net income was an increase of \$237 (2011 – increase of \$80).

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 2012 actual costs deferred to this account totalled \$535 (2011 - \$199). The net effect of rate regulation on net income was a decrease of \$65 (2011 – decrease of \$401).

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 2012 fuel expenses were deferred and consequently lower due to the differences in fuel prices of \$4,830 (2011 - \$1,719) and lower due to the volume of available water generation of \$383 (2011 - \$1,487). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$59 (2011 - \$186).

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

There were four fuel stabilization fund rate riders in effect in fiscal 2011. There were none of these riders in effect in fiscal 2012. In fiscal 2011 the fuel stabilization riders resulted in collections of \$2,853 and were reported as fuel rider revenues with an offsetting and equal charge to fuel expense. In fiscal 2012 the GNWT made specified contributions of \$8,957 (2011 - \$3,000) to pay down the stabilization funds. At the end of fiscal 2012, \$3,856 (2011 - \$3,000) of this balance was recorded in accounts receivable. In addition to offsetting the balances accumulated in the stabilization funds, these contributions have been reported as rider revenue with an offsetting and equal charge to fuel expense.

The PUB approved the 2006/08 GRA shortfall rider collections of \$nil (2011 - \$3,900) and the Snare Cascades deferral account riders of \$nil (2011 - \$85) to be applied against the rate stabilization funds.

The net effect of rate regulation on net income was a decrease of \$3,685 (2011 – decrease of \$6,446).

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 2012 of \$nil (2011 - \$24) less an annual return and other adjustments to the balance in the account equal to \$nil (2011 - \$22) 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 \$nil (2011 – decrease of \$2).

Fuel rider revenues

Fuel rider revenues with offsetting fuel expense:

	<u>2012</u>		<u>2011</u>	
	<u>Rider Revenues</u>	<u>Associated fuel expense</u>	<u>Rider Revenues</u>	<u>Associated fuel expense</u>
GNWT contribution	\$ 8,957	\$ 8,957	\$ 3,000	\$ 3,000
07/08 shortfall rider	-	-	3,900	3,900
Rate stabilization fund riders	-	-	2,853	2,853
Snare Cascades deferral account	-	-	85	61
	<u>\$ 8,957</u>	<u>\$ 8,957</u>	<u>\$ 9,838</u>	<u>\$ 9,814</u>

Regulatory liabilities

	<u>2012</u>		<u>2011</u>		<u>Remaining settlement period</u>
	<u>\$</u>	<u></u>	<u>\$</u>	<u></u>	
Reserve for future removal and site restoration	\$	35,209	\$	36,152	Determined by PUB
Deferred revenues		<u>4,936</u>		<u>4,350</u>	Determined by PUB
	\$	40.145	\$	40.502	

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 3. 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 2012 expenses would have been \$725 (2011 - \$798) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,889 (2011 - \$1,838) higher than they would be in the absence of rate regulation.

In the absence of rate regulation, GAAP would also require the net change in the balance of asset retirement obligations (Note 13) to be booked to net income rather than to the reserve for future removal and site restoration. The net change in the reserve for future removal and site restoration account balance as a result of changes in the asset retirement obligations and environmental liabilities account balances recorded against the reserve for future removal and site restoration was a decrease in the account balance of \$2,107 (2011 – increase of \$132). The net effect of rate regulation on net income is an increase of \$943 (2011 – decrease of \$1,172).

Deferred revenues

Deferred revenues reflect contributions to aid in the construction and acquisition of property, plant and equipment. Deferred revenues are amortized on the same basis as the related property, plant and equipment, and the resulting credit is offset against the corresponding provision for amortization of property, plant and equipment (Notes 7, 18). 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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

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

period is indeterminate as the account is increased each year by new contributions received from customers and drawn down by the straight-line amortization of the account balance. The amortization rates for deferred revenues are the same as those found in Note 2 under Amortization. In fiscal 2012 revenues were \$1,104 (2011 - \$951) lower than they would have been and amortization on property, plant, and equipment was \$518 (2011 - \$476) 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 \$586 (2011 – decrease of \$475).

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 allows interest during construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore, the AFUDC as recorded by NTPC 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 19). 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 2012 approximately \$1,014 (2011 - \$673) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB-approved cost of capital structure. The net effect of rate regulation on net income is an increase of \$883 (2011 – increase of \$673).

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 2012 (or 2011) in association with this project. Therefore fuel expense in fiscal 2012 (and 2011) was the same as it would have been in absence of rate regulation. Amortization expense was \$39 (2011 - \$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 (2011 – decrease of \$39).

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

4. Capital management

NT Hydro's capital structure as at March 31, 2012 and March 31, 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Long-term debt	\$ 187,004	\$ 203,320
Less: Sinking funds	25,052	38,726
Less: Unamortized premium, discount and issuance costs	1,389	1,495
Net long-term debt	<u>160,563</u>	<u>163,099</u>
Net lease obligation	2,028	1,811
Shareholder's equity	104,067	100,836
Less: AOCI	-	521
Adjusted shareholder's equity	<u>104,067</u>	<u>100,315</u>
Total capital	<u>\$ 266,658</u>	<u>\$ 265,225</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. 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 *Northwest Territories Power Corporation Act*. The amount of NT Hydro debt is also subject to the federally imposed borrowing cap on total GNWT debt of \$800,000 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 *Northwest Territories Power Corporation Act* and the debt cap limitations of the federal government on the GNWT while striving to deliver targeted financial returns as set by the PUB. 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 2012 is 61/39 (2011 - 62/38).

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.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

5. Accounts receivable

The aging of accounts receivable was:

	2012				2011
	Current (less than 28 days)	29-90 days	Over 90 days	Total	Total
Utility	\$ 9,597	\$ 946	\$ 1,143	\$ 11,686	\$ 11,325
Non-utility	7,079	64	733	7,876	4,153
Allowance for doubtful accounts	-	-	(728)	(728)	(361)
	<u>\$ 16,676</u>	<u>\$ 1,010</u>	<u>\$ 1,148</u>	<u>\$ 18,834</u>	<u>\$ 15,117</u>

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

	2012	2011
Balance, beginning of the year	\$ (361)	\$ (283)
Receivables written off	93	154
Increase to allowance	(460)	(232)
Balance, end of the year	<u>\$ (728)</u>	<u>\$ (361)</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 24.

On Feb 14, 2012, a Canadian Forces Griffon helicopter struck the Snare hydro transmission lines near Yellowknife which temporarily cut power to Yellowknife and surrounding communities. Power was supplied by back up sources until Feb 23, 2012, when the transmission lines were rebuilt and hydroelectric power from the Snare system was restored. While the Department of National Defense (DND) has not publically admitted liability for the incident, they directed NT Hydro to file a claim against the Crown to recover costs associated with restoring power and they have assisted with that process. Accounts receivable includes \$1,739 at March 31, 2012 (2011 – \$nil) owing from DND related to this accident.

6. Inventories

	2012	2011
Materials, supplies and lubricants	\$ 3,981	\$ 4,300
Fuel	181	128
	<u>\$ 4,162</u>	<u>\$ 4,428</u>

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 6. Inventories (continued)

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 22. Fuel held as inventory and then expensed in fiscal 2012 totalled \$1,540 (2011 - \$1,302). The supplies and services expenses reported in fiscal 2012 includes \$1,099 (2011 - \$960) 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.

7. Property, plant and equipment

	2012			2011
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Electric power plants	\$ 228,277	\$ (65,279)	\$ 162,998	\$ 161,739
Transmission and distribution systems	77,845	(20,311)	57,534	56,429
Electric power plant under capital lease	26,349	(6,347)	20,002	20,396
Warehouse, equipment, motor vehicles and general facilities	38,090	(12,968)	25,122	24,136
Other utility assets	7,544	(1,936)	5,608	4,521
Other	6,583	(4,921)	1,662	2,871
Assets held for future use (critical spare parts)	3,648	-	3,648	3,197
	<u>\$ 388,336</u>	<u>\$ (111,762)</u>	<u>\$ 276,574</u>	<u>\$ 273,289</u>
Construction work in progress	50,072	-	50,072	33,778
Impairment provision	(14,625)	-	(14,625)	-
	<u>\$ 423,783</u>	<u>\$ (111,762)</u>	<u>\$ 312,021</u>	<u>\$ 307,067</u>

Engineering and other direct overhead expenses allocated to assets placed in service during the year amounted to \$3,565 (2011 - \$1,674).

Included in property, plant and equipment is \$14,237 (2011 - \$17,178) of costs related to the Taltson Hydro expansion project included in construction work in progress. This project is funded by way of \$13,797 of related deferred government contributions as at March 31, 2012 (2011 - \$9,462) and short term debt of \$440 (2011 - \$4,150). Subsequent to March 31, 2011 the short term debt outstanding for fiscal 2011 was paid off by the GNWT on behalf of NTEC(03) and was reflected as an additional deferred government contribution in fiscal 2012.

In fiscal 2012, NTPC purchased \$3,916 in studies previously capitalized by NTEC(03) under plant, property and equipment. NTPC capitalized \$695 of these studies under plant, property and equipment. These studies will assist regulated operations with future transmission line developments. The remaining \$3,221 in studies related to baseline water information on the Taltson river system was added to NTPC's water licensing deferral account. See Note 3 for additional details.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 7. Property plant and equipment (continued)

While opportunities are still being explored for the Taltson hydro expansion project, the likelihood that the project will proceed is difficult to quantify as of March 31, 2012 and as such, NT Hydro determined that an impairment provision should be made against the balance of the project costs in construction work in progress of \$14,237. As a result, the \$13,797 of related deferred government contributions for the project were also taken into revenues in fiscal 2012. A net loss of \$440 results from these two transactions.

Included in property, plant and equipment was \$388 (2011 - \$388) of costs related to a mini-hydro project that was funded by the GNWT. In 2012, it was determined that it was unlikely that this project will proceed to construction. As a result, an impairment provision of \$388 was recorded against the balance in construction work in progress and a related deferred government contribution of \$387 was taken into revenue in 2012.

8. Sinking fund investments

Sinking fund investments are held by the Trustee for the redemption of long-term debt. As the sinking funds exist to fund the payout of long-term debt, sinking fund income is treated as a reduction of finance charges and is reflected in interest expense (Note 19).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 24. NT Hydro realized a mark-to-market return of 5.20% (2011 – 8.6%) on the general portfolio of sinking fund investments.

In May 2012 \$20,000 of the sinking fund balance will be retired to offset the repayment of the May 2012 debenture and only two smaller sinking fund debentures will remain. In anticipation of this reduced balance, in February 2012 the sinking fund policy was revised to reduce the investment risk of the portfolio and reduce administrative costs. The new policy allows only Canadian fixed-income and short-term investments. Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. Fixed-income securities have investment grade credit. In previous years, all fixed-income securities were of investment grade credit. NT Hydro's sinking fund policy limited investments in equities to 30% of the total sinking fund market value. Equities could be invested in two funds and were well diversified by sector, issuer, region and liquidity.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 8. Sinking fund investments (continued)

	2012		2011	
	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	\$ 25,052	0.90%	\$ 16,042	0.90%
Available-for-sale (fair value)				
Corporate bonds	-		7,555	5.10%
Canadian equities	-		4,125	19.90%
Federal Government guaranteed bonds	-		3,665	3.51%
Provincial Government guaranteed bonds	-		2,641	4.72%
Municipal Government guaranteed bonds	-		1,977	5.42%
International equities	-		828	5.50%
US equities	-		1,893	11.40%
	-		22,684	
Total	\$ 25,052		\$ 38,726	
Less: current portion	20,000		15,000	
	\$ 5,052		\$ 23,726	

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.

9. Intangible assets

	2012		2011	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Enterprise software	\$ 2,938	\$ 1,922	\$ 1,016	\$ 1,268

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

10. 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.

	<u>2012</u>	<u>2011</u>
Bankers acceptances and bank overdraft	\$ 16,351	\$ 5,466

The short-term debt outstanding at year-end had a weighted average 30 day term (2011 - 90 day term) and a 2.25% (2011 - 2.84%) weighted average annual interest rate.

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

	<u>2012</u>	<u>2011</u>
5.16% amortizing debenture, due September 13, 2040	\$ 50,000	\$ 50,000
5.443% debenture, due August 1, 2028	25,000	25,000
5.995% debenture, due December 15, 2034	25,000	25,000
10.75% sinking fund debentures, due May 28, 2012	20,000	20,000
5% debenture, due July 11, 2025	15,000	15,000
6.83% amortizing debenture, due December 18, 2032	14,000	14,667
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	7,021	7,245
9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69	6,165	6,374
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70	6,118	6,334
11.125% sinking fund debentures, due June 6, 2011	-	15,000
	<u>\$ 187,004</u>	<u>\$ 203,320</u>
Less: Unamortized premium, discount and issuance costs	1,389	1,495
	<u>185,615</u>	<u>201,825</u>
Less: Current portion	22,184	16,316
	<u>163,431</u>	<u>185,509</u>
Less: Sinking fund investments (Note 8)	25,052	38,726
Long-term debt, net of sinking fund investments	<u>\$ 138,379</u>	<u>\$ 146,783</u>

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal repayments	\$22,184	\$2,292	\$2,437	\$2,544	\$2,691
Sinking fund investment contributions	\$ 580	\$ 580	\$ 580	\$ 580	\$ 580

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

12. Net lease obligation

NTEC loaned funds to the Dogrib Power Corporation to finance the construction of a hydroelectric generating plant on the Snare River in the Northwest Territories from 1994 to 1996. The balance of the loan receivable is \$18,191 (2011 - \$18,756). 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 \$20,003 (2011 - \$20,408).

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 \$26,349 (Note 7).

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$1,812 (2011 - \$1,652). The current portion of the net lease obligation is a receipt of \$216 (2011 - \$159) 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 24.

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

2013	2014	2015	2016	2017
\$278	\$347	\$423	\$506	\$597

13. Asset retirement obligations

	2012	2011
Balance, beginning of the year	\$ 4,674	\$ 4,806
Liabilities settled	(576)	(646)
Accretion expense	174	186
Valuation adjustment	2,087	43
Additions	421	285
Balance, end of the year	<u>\$ 6,780</u>	<u>\$ 4,674</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 - \$21,380 (2011 - \$15,416)
- Expected timing of payments of the cash flows – majority of expenditures expected to occur after fiscal 2030
- The weighted average discount rate is the credit-adjusted risk-free rate of 5.43% for those obligations identified prior to fiscal 2012 and 3.78% for those obligations identified in fiscal 2012

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

14. Environmental liabilities

NT Hydro estimates that it would cost approximately \$14,802 (2011 - \$10,072) to clean up the environmentally contaminated soil at its 27 sites in the NWT. The discounted present value of these obligations is \$3,536 (2011 - \$1,879) 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 recorded in these financial statements for a potential recovery from the Government of Canada.

15. Deferred government contributions

Following is a summary of deferred government contributions:

	<u>2012</u>	<u>2011</u>
Balance, beginning of the year	\$ 12,009	\$ 9,721
Eligible funding	5,229	2,294
	<u>17,238</u>	<u>12,015</u>
Amortization for the year	(201)	(6)
Impairment provision (Note 7)	(14,185)	-
Balance, end of the year	<u>\$ 2,852</u>	<u>\$ 12,009</u>

In fiscal 2012 the GNWT signed four new one-year contribution agreements with NT Hydro and its subsidiaries for capital project funding.

The first two agreements were with NTEC(03) for the Taltson hydro expansion project. Under the first agreement, the GNWT paid off \$4,126 in NTEC(03) short term debt related to the Taltson hydro expansion project. Under the second agreement, the GNWT was to provide NTEC(03) \$300 (2011 - \$200) in financial assistance. In the current year, \$250 (2011 - \$200) of the funding from the second agreement was received and the Corporation spent \$209 in furthering the project. Included in accounts payable as at March 31, 2012 is a \$41 balance related to this agreement.

The third agreement was with NTPC to provide \$1,400 in financial assistance to continue with a heat recovery project in Inuvik. As of March 31, 2012, \$700 of this contribution was received from the GNWT, total eligible project costs for the year were \$151 and \$549 has been included in accounts payable related to this agreement. Total project costs of \$151 were capitalized during the year.

The fourth agreement was with NTPC to provide \$700 in financial assistance for the installation of a photovoltaic generation system in Ft. Simpson. As of March 31, 2012, eligible costs incurred were \$741. There is \$200 owing to NTPC by the GNWT under this agreement at the end of the year. Total project costs of \$741 were capitalized during the year.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

16. 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) Public Service Pension Plan:

The employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The employer contribution rate effective at the end of the year was 1.74 times employees' contributions (2011 – 1.86 times). Total contributions of \$2,833 (2011 - \$2,858) were recognized as expense in the current year.

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

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

	2012	2011
Accrued benefit obligation, beginning of the year	\$ 2,120	\$ 3,223
Net increase in obligation for the year	385	186
Benefits paid during the year	(567)	(1,289)
Accrued benefit obligation	1,938	2,120
Less: current portion	(413)	(327)
Accrued benefit obligation, end of the year	<u>\$ 1,525</u>	<u>\$ 1,793</u>

17. Other revenues

	2012	2011
Contract work	\$ 570	\$ 361
Connection fees	349	298
Pole rental	247	277
Heat revenues	214	135
Miscellaneous	88	104
	<u>\$ 1,468</u>	<u>\$ 1,175</u>

18. Amortization

	2012	2011
Property, plant and equipment	\$ 12,329	\$ 11,797
Regulatory assets	3,127	3,127
Intangible assets	287	271
Deferred revenues (Note 3)	(518)	(476)
	<u>\$ 15,225</u>	<u>\$ 14,719</u>

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

19. Interest expense

	<u>2012</u>	<u>2011</u>
Interest on long-term debt	\$ 14,859	\$ 15,217
Short-term debt financing costs	435	477
Income from sinking fund investments	(1,561)	(3,161)
Income on loan receivable (Note 12)	(1,776)	(1,828)
Capitalized allowance for funds used during construction	(2,783)	(1,455)
	<u>\$ 9,174</u>	<u>\$ 9,250</u>

20. Other government assistance

The GNWT provided \$2,312 (2011 - \$2,289) to NT Hydro and its subsidiaries for operating costs related to furthering the NWT Hydro Strategy, feasibility studies of mini hydro projects, geothermal 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, 2012, a net receivable of \$35 (2011 - \$770) of funding under these agreements was still receivable from the GNWT and is recorded in accounts receivable.

21. Share capital

	<u>Number of shares</u>	<u>2012</u>	<u>Number of shares</u>	<u>2011</u>
Preferred shares				
Authorized:				
One preferred share, non-cumulative, without par value				
Issued and outstanding:				
Issued on incorporation (one dollar)	<u>1</u>	<u>\$ -</u>	<u>1</u>	<u>\$ -</u>
Common shares				
Authorized:				
One common share without par value				
Issued and outstanding:				
Issued on incorporation	<u>1</u>	<u>\$ 43,129</u>	<u>1</u>	<u>\$ 43,129</u>

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

22. Commitments and contingencies

Capital projects

In December 2011, the Board of Directors approved a capital plan of \$22,860 (2011 - \$37,849) which includes the costs to complete projects already in progress at March 31, 2012.

Natural gas purchase commitment

NT Hydro has an agreement to purchase natural gas to produce electricity in Inuvik. In September 2011 NT Hydro received a letter from the gas supplier, which is a partnership of IKHIL Resources Ltd., Altagas Marketing Inc. and IPL Holdings Inc., providing notice that the gas supply in the Inuvik Gas Reservoir was limited and unlikely to last to the end of the contract period. NT Hydro reduced its consumption of natural gas in a good faith attempt to extend the supply of gas to the residents of Inuvik so that alternative gas supplies could be pursued. For the period of January through March 2012 generation was curtailed to 10% with gas and the remainder produced by the backup diesel plant.

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

Fuel management services agreement

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

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.

Refer to Notes 11, 12, 13, and 14 for other commitments and contingencies disclosed elsewhere in these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

23. 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:

	2012	2011
Transactions during the year:		
Sale of power and other	\$ 20,197	\$ 20,488
Purchase of fuel from PPD	16,398	14,817
Other purchases and payments	1,544	3,311
Fuel tax paid to GNWT	155	615
Dividend paid to GNWT	-	3,500
Deposit paid to GNWT for purchase of land and building	-	2,043
GNWT refunded deposit for purchase of land and building	2,043	-
Balances at year-end:		
Accounts payable to PPD	7,298	1,274
Accounts receivable	5,606	1,705
Prepaid deposit on hand for purchase of land and building	-	2,043
Accounts payable, accrued liabilities and derivatives	62	51

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

24. 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	
Short-term debt	Other financial liabilities		X		X	
Measured at fair value						
Cash	Held for trading	X				
Short-term investments	Held for trading	X		X	X	

a) Credit risk

Credit risk is the risk that a third party 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:

	2012	2011
Sinking fund short-term investments	\$ 25,052	\$ 16,042
Snare Cascades loan receivable	18,192	18,756
Accounts receivable	18,834	15,117
Cash	1,368	2,614
Sinking fund fixed-income investments	-	15,838
Sinking fund equity investments	-	6,846
	<u>\$ 63,446</u>	<u>\$ 75,213</u>

Snare Cascades loan receivable

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

Accounts receivable

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 six percent (2011 - 35%) of NTPC's sales are to two other utilities. Eleven percent (2011 - 13%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 5 analyzes the age of customer accounts receivable.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 24. Financial instruments (continued)

Cash and sinking fund investments

NT Hydro minimizes the credit risk of cash and sinking fund investments by dealing with only reputable financial institutions and investing in securities that meet minimum credit ratings as stipulated by its investment policy and limiting exposure to any one security or asset class. An ongoing review is performed to evaluate changes in the status of counterparties.

b) Liquidity risk

Debt liquidity risk is managed by the use of sinking fund and amortization provisions on eight of the twelve debentures. 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, 2012:

<u>Timeframe</u>	<u>Dollar Value</u>	
	<u>2012</u>	<u>2011</u>
Less than 1 year	\$ 35,678	\$ 20,466
Greater than 1 year and not later than 6 years	12,791	32,066
Greater than 6 years and not later than 20 years	103,484	103,557
Greater than 20 years	48,612	51,381
	<u>\$ 200,565</u>	<u>\$ 207,470</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.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 24. Financial instruments (continued)

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.

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.

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. For fiscal 2011, 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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 24. Financial instruments (continued)

comprehensive income. For fiscal 2012, all of the Corporation's gains and losses have been realized. 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%	
	2012	2011	2012	2011	2012	2011
Net income	\$25	\$ 42	\$531	\$328	\$60	\$162
Other comprehensive income	-	\$247	-	\$242	-	\$685

g) Fair value determination

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

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

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

Note 24. Financial instruments (continued)

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, 2012, the fair value and carrying value of NT Hydro's financial instruments are:

	<u>Level</u>	<u>Fair Value</u>		<u>Carrying Value</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Held for trading financial assets					
Cash	Level 1	\$ 1,368	\$ 2,614	\$ 1,368	\$ 2,614
Short-term investments	Level 1	25,052	16,042	25,052	16,042
		<u>\$ 26,420</u>	<u>\$ 18,656</u>	<u>\$ 26,420</u>	<u>\$ 18,656</u>
Available for sale financial assets					
Bonds	Level 1	\$ -	\$ 15,838	\$ -	\$ 15,838
Equities	Level 1	-	6,846	-	6,846
		<u>\$ -</u>	<u>\$ 22,684</u>	<u>\$ -</u>	<u>\$ 22,684</u>
Other financial liabilities					
Long-term debt	Level 2	\$ 237,792	\$ 229,201	\$ 185,615	\$ 201,825
Net lease obligation	Level 2	6,024	3,472	1,812	1,652
		<u>\$ 243,816</u>	<u>\$ 232,673</u>	<u>\$ 187,427</u>	<u>\$ 203,477</u>

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.

As at March 31, 2012, NT Hydro provided an allowance for doubtful accounts of \$728 (2011 - \$361) 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 (2011 - \$nil).

Notes to the Consolidated Financial Statements
For the year ended March 31, 2012
(\$000's)

25. Investments in joint ventures

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

	<u>2012</u>	<u>2011</u>
Other revenues	\$ 98	\$ 70
Operating expenses including amortization	34	45
Net income	<u>\$ 64</u>	<u>\$ 25</u>
Current assets	\$ 145	\$ 56
Non-current assets	479	504
	<u>\$ 624</u>	<u>\$ 560</u>
Current liabilities	\$ 14	\$ 13
Shareholder's equity	610	547
	<u>\$ 624</u>	<u>\$ 560</u>
Cash flows provided by operating activities	\$ 88	\$ 50
Cash flows provided by investing activities	-	-
Cash flows used in financing activities	-	(125)

26. Subsequent events

Following are significant events occurring after March 31, 2012:

- (a) The Board of Directors approved a new long term debt issuance of \$25,000 for December 2012. The borrowing is subject to PUB approval and the terms are not yet known.
- (b) Subsequent to the year, the Corporation signed a contribution agreement with the GNWT to cover anticipated revenue shortfalls related to its General Rate Application. Contributions will be provided by the GNWT to the Corporation to mitigate the impact of rate increases on customers over a three year period. The agreement specifies maximum contributions as follows:

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

27. Comparative figures

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

