

Northwest Territories Hydro Corporation

2007/08

Annual Report

Message from the Chairman

The Northwest Territories Hydro Corporation, or NT Hydro for short, came into being on June 30, 2007. The creation of NT Hydro by the Legislative Assembly of the Northwest Territories signaled the start of a new era in electrical energy development, management and provision in the NWT.

The NT Hydro group of companies includes NT Hydro and its subsidiaries; the Northwest Territories Power Corporation with its existing mandate for electrical power provision; and the developmental companies, NWT Energy Corporation (03) Ltd. and Sahdae Energy Ltd.

The purpose in creating NT Hydro is to facilitate development of new renewable energy sources in the NWT to:

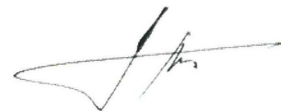
- meet energy demand in an environmentally responsible manner,
- make available stable priced and reliable electrical power required to stimulate the economic growth and development of the NWT, and
- forge the northern business partnerships necessary to ensure that the primary benefits of developing NWT electrical energy sources stays in the NWT.

The Board of Directors of NT Hydro have enthusiastically embraced this mandate and, with the support of the very professional and hard working staff of the NT Hydro group of companies, is confident in its ability to achieve the goals set.

The backbone of the NT Hydro family remains its subsidiary, the Northwest Territories Power Corporation (NTPC). It is the dedicated staff of NTPC that keep the lights on in our served communities and are responsible for the high level of service and reliability our customers enjoy. This is not an easy job. Lightening storms, forest fires, and extreme weather create huge operational challenges for our staff, yet they are able to maintain reliability levels of 99.98%. NTPC is up to the challenge.

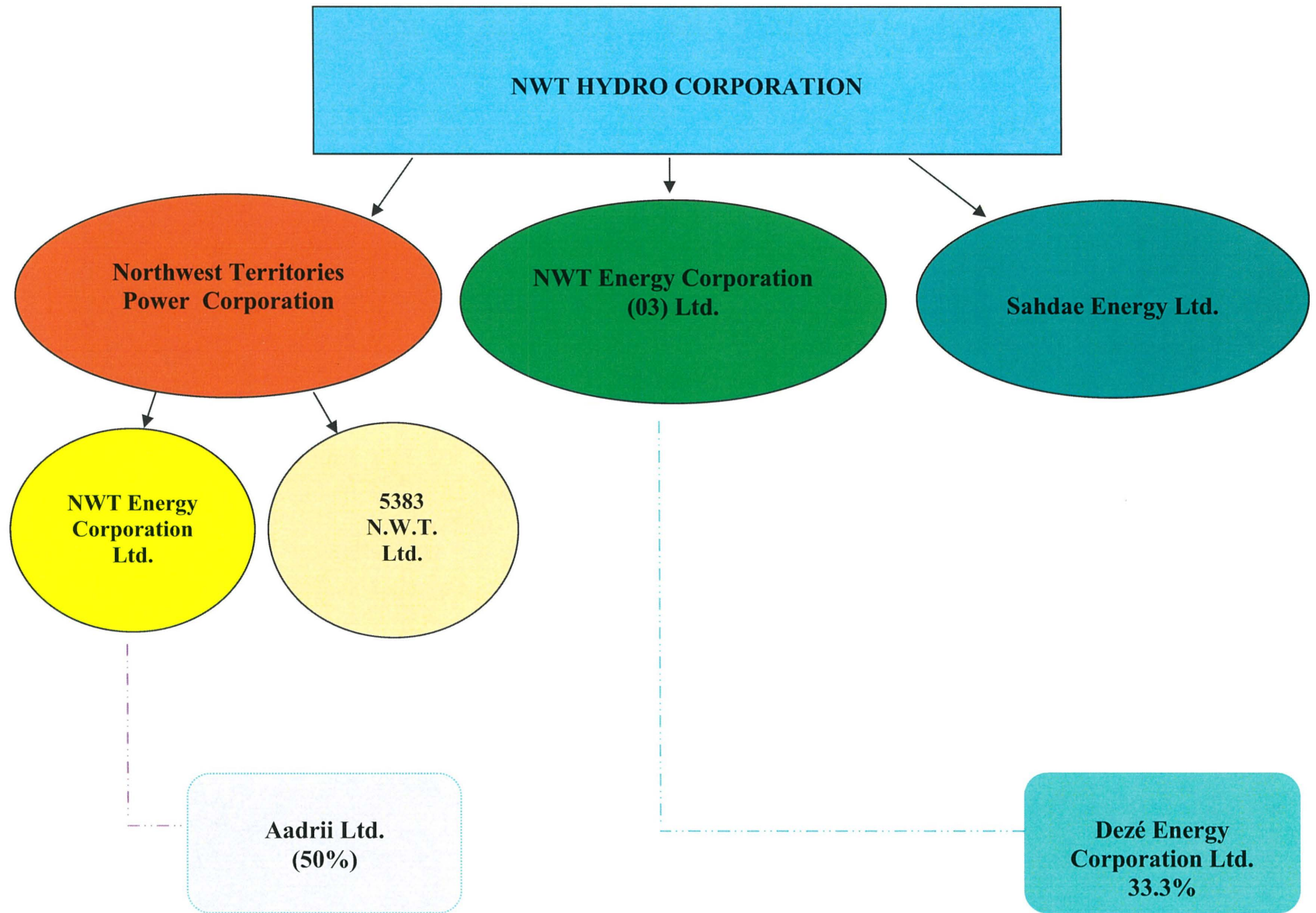
The past year and future years will also present challenges to our customers. High world oil prices, an overheated western Canada economy, climate change, and the lure of energy hungry conveniences and life styles will continue to put upward pressure on power rates and power consumption. Be assured that NT Hydro and NTPC have been and will continue to take all reasonable measures to keep rates as low as possible as well as offer conservation advice and services to our customers.

On behalf of the NT Hydro Board of Directors I wish to extend our thanks to our customers and business partners for their understanding and support over the past year. I would also like to thank our staff for their dedication and hard work and congratulate them on a job well done.



Lew Voytilla
Chairman

CORPORATE STRUCTURE OF NWT HYDRO CORPORATION



NWT Energy Corporation (03) Ltd

NWT Energy Corporation (03) Ltd (NTEC(03)), a subsidiary of the Northwest Territories Hydro Corporation and a sister corporation to the Northwest Territories Power Corporation (NTPC), was formed to pursue new opportunities in hydro power development. Guided by such principals as environmental consideration, low impact design, respect and compliance with land claim provisions, partnerships, and power grid development, NTEC(03) will also be guided by the soon to be released *NWT Hydro Strategy: The Foundation for a Sustainable Energy Future*. The Northwest Territories has significant hydro potential with some of the best hydro geography in Canada. New “low-impact” hydro technology and approaches make it “Green Energy”. The Taltson Expansion Project alone would accomplish more in terms of GHG reductions than all other GNWT efforts combined. NTEC(03) is currently involved in a number of hydro initiatives in the Northwest Territories

Taltson Hydroelectric Expansion Project

The Taltson Hydro Expansion project is a proposed 56 Megawatt (MW) expansion of the existing Taltson Hydro Facility (18 MW) for the purpose of supplying the diamond mines with clean, environmentally friendly renewable hydro power thus replacing their use of diesel generation. The proposed expansion calls for the construction of over 600 km of transmission lines to the northern diamond mines. The estimated cost of the project is over \$300 million.

The project is being undertaken by Dezé Energy Ltd., a joint venture consisting of the NWT Energy Corporation (03) Ltd., the Métis Energy Company and the Akaitcho Energy Corporation Ltd. As a result of this partnership, financial benefits will flow for generations to community residents through these Aboriginal corporations.

Project Benefits:

- **Environmental Benefits** – 15 % reduction in the NWT’s total greenhouse gas emissions, less fuel being transported across GNWT highways and winter road (resulting in less risk of environmental contamination through spills and reduced dependency on fossil fuels), and no additional flooding.
- **Economic Benefits** – The potential to extend the life of the existing diamond mines and make future development more economically viable; extended life for the diamond mines equals increased tax revenue for governments, employment and business opportunities through the construction; and helping to create long-term sustainable revenue for the communities of the South Slave.

Dezé Energy’s submission to the Mackenzie Valley Land and Water Board was referred to the Mackenzie Valley Environmental Impact Review Board (MVEIRB) http://www.mveirb.nt.ca/registry/project.php?project_id=68 for review. Currently the Project is in the Environmental Assessment (EA) process and a decision from the MVEIRB is expected anytime in the next two years. While the MVEIRB is reviewing the application, Dezé Energy will continue its process of consultation and evaluation of community interests, project planning, and project development.



The current hydro electric plant on the Taltson River, site of the proposed 56 MW expansion

Lutsel K'e Mini Hydro

NTEC(03) is currently investigating the feasibility of using hydro power as an alternative source of energy supply for Lutsel K'e using clean renewable, run of river hydro technology and a mini-hydro facility to supply the community with power in lieu of the diesel generators currently being used.

Wha Ti Mini Hydro

NTEC(03) and Wha Ti are currently investigating the feasibility of using hydro power as an alternative source of energy supply using clean, renewable, run of river hydro technology to supply the community with power in lieu of the diesel generators currently being used. Wha Ti is examining the least cost option of a mini-hydro facility or connecting to the existing Snare Hydro System via a new transmission line.

Snare River Site 7

NTEC(03) is working with NTPC and the Tli Cho owned Dogrib Power Corporation to study the feasibility of developing a hydro plant on the Upper Snare River. Currently there is not enough demand for Site 7 to be brought online, but it continues to be a reliable reserve for the future. This reserve could be brought online for future developments in the area or to tie into the Yellowknife grid as growth demands.

Deline Mini Hydro

NTEC(03) and Deline have been investigating the feasibility of using hydro power as an alternative source of energy using the relatively uncommon hydrokinetic energy. This involves capturing the energy of the current by submerging small turbines in the Great Bear River.

The Great Bear Hydro Project

The Deline Land Corporation and Sahdae Energy Ltd. formed a partnership to research the viability of constructing a 126 MW run-of-the-river hydroelectric development on the Great Bear River in central NWT. The power potential of this site is ideally suited to meet the needs of the proposed Mackenzie Valley gas pipeline as well as power the communities of Tulita, Deline, Fort Good Hope, Tsigichic, Inuvik, and Norman Wells, and could result in a significant reduction in greenhouse gases and dependency on diesel fuel for power generation. Currently no further studies have been planned as the Project is on hold until a favourable NEB ruling is received or the pipeline proponents decide to pursue a hydroelectric option for powering the Mackenzie Valley Pipeline.



As can be seen above, the steep banks and rock faces of the Great Bear River minimizes any displacement of water – providing an ideal hydroelectric development location .

Management's Discussion and Analysis

The following Discussion and Analysis is intended to provide an historical and prospective analysis of the Corporation with 2007/08 financial performance as the primary focus. Management assumes full responsibility for the information provided in this Discussion and Analysis and confirms that appropriate information systems, procedures and controls are in place to ensure that the information provided is both complete and reliable. These comments should be read in conjunction with the Consolidated Financial Statements included in this report.

Description of the Corporation's Operations

New corporate structure

The Northwest Territories Power Corporation (NTPC) is a Crown Corporation and is a public agency under the *Financial Administration Act*. This year represents the first year of operating under its new corporate structure. NTPC is now owned by the Northwest Territories Hydro Corporation (NT Hydro or "the Corporation") which in turn is 100% owned by the Government of the Northwest Territories (GNWT). NT Hydro is also a public agency, established under the *Northwest Territories Hydro Act* and now owns, in addition to NTPC, NWT Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (Sahdae). NTEC-03 and Sahdae were previously subsidiaries of NTPC. The new structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the GNWT's investment in NTPC.

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 established under the *Northwest Territories Power Corporation Act* and has two wholly-owned subsidiaries, the Northwest Territories Energy Corporation (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%) in one residual heat project in Fort McPherson. 5383 NWT Ltd. is an inactive company. The utility activities of NTPC are regulated by the Northwest Territories Public Utilities Board (PUB).

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

NT Hydro set objectives and strategies for NTPC in 2007/08 to be efficient and effective while maintaining or improving reliability, delivering quality customer service, operating safely and protecting the environment. In addition, the Corporation continued to work with aboriginal partners to explore hydro development opportunities through NTEC(03) and Sahdae. The shareholder set the strategic direction which encompassed the core regulated utility business as well as the development of hydro.

Our Vision

- To be making a major contribution to development of new energy sources in the North.

- To be seen as proactive in embracing and developing renewable electricity technology.
- To be able to provide hydro electricity on a timely and competitive basis to new industrial projects.
- To have an organization capable of managing and delivering hydro electric generation and related transmission projects.
- To have completed construction and started operating at least one significant hydro electric project on time and within budget.
- To be a recognized leader in partnering on hydro electric projects with aboriginal organizations and communities.
- To be profitable and financially strong and capable of generating wealth for the shareholder, partners, and NWT residents.
- To pursue opportunities and development that is consistent with an integrated power grid in the NWT.

Discussion of Objectives and Strategies for 2007/08

Hydro and other alternative energy initiatives

NT Hydro is actively working with its partners the Akaitcho Energy Corporation and the Métis Energy Company Ltd., through the Deze Energy Corporation (Deze), to pursue the expansion of the existing Taltson hydro system in order to transmit and sell power to the diamond mines in the Northwest Territories. Taltson hydro is an 18 MW hydro plant located on the Taltson River approximately 56 km north-east of Fort Smith. It was built by the Northern Canada Power Commission in 1965 to supply electricity to the Pine Point mine and now supplies power to the communities of Fort Smith, Fort Resolution, Hay River and Fort Fitzgerald. Deze is proposing to expand the existing system by adding an additional 36-50MW generating capacity and building approximately 700 km of transmission line to transport the electricity. The estimated cost of expanding the site and building transmission lines to the diamond mines is over \$300 million.

The expansion project is now well into the environmental assessment/permitting stage of development. Continued support of the project by the Government of the Northwest Territories (GNWT) is critical to the success of the project. In 2007/08 both the federal and territorial governments provided contribution funding to further the Taltson expansion and are considering further support for 2008/09.

We hope that the development of this project will stabilize costs for the diamond mines, allowing them to operate longer and assist in the development of other mines in the area.

NT Hydro, through its subsidiary Sahdae, continues to observe the regulatory review of the Mackenzie Valley Pipeline project and awaits a decision from the regulator indicating whether the proponents of the project will be required to design and build the system with the potential to power the pipeline with hydro.

Energy Planning and Renewable Energy

NT Hydro is working with the GNWT to explore mini hydro projects and wind power as additional methods to reduce diesel generation. During 2008/09 three studies will be undertaken into

utilizing the residual heat from diesel engines. NT Hydro is also assisting the GNWT in its review of Rates, Regulation and Subsidies.

NT Hydro also put out a call for proposals for the private sector to develop a demonstration wind project in the NWT. A long lead time was purposely incorporated into the proposal call to allow prospective respondents to put together a plan and develop partnerships for this project. There is keen interest in wind energy for the NWT and further developments are expected in 2008/09.

In order to prepare for distributed generation, such as wind, NTPC applied for approval of interconnection standards and will also be putting forward a proposal for stand by rates in 2008/09.

Toward a strong, profitable, well-managed and operated, fully integrated utility

Environment and Safety

The Corporation continues to deliver services in an environmentally responsible manner. The Corporation's spill record, with a total volume of 3,587 litres, was the second lowest we have achieved. The Corporation is now recycling glycol which both lowers its costs and improves our impact on the environment.

After several years of continuing improvement in the safety area we experienced four lost time accidents in 2007/08 which has resulted in an increase in our five year accident severity rate from 10.65 lost time days per 200,000 hours to 17.2. We upgraded our safety orientation program, adding an interactive teaching and testing tool, increasing emphasis on site specific orientation and expanding our policies to include contractors. Also for the first time a designated training period was set to deliver the many types of mandatory training staff require. The Corporation's objective remains to be accident free and an increased emphasis will be placed on safety in 2008/09.

The Corporation's Risk Management Committee continues to play a greater role in overseeing the environmental and safety audit program in an effort to mitigate safety and environmental risks. Improvements continue to be made in the area of greenhouse gas emissions reduction. The Corporation is 58% below its 1990 levels for greenhouse gas emissions. Improved engine efficiency, full year operation of our third gas engine in Inuvik and streetlight conversion projects were the main initiatives completed in 2007/08 aimed at further emission reduction.

In June 2006 a dyke at Snare Forks breached and deposited silt into the lake below the dyke. NTPC immediately closed the breach and over the past two years has worked closely with regulators to remediate the erosion damage caused by the breach. In addition, all dykes have been surveyed to ensure no other problems exist. NTPC is in negotiation with the Crown on charges under the Fisheries Act for the breach and expects this matter will be resolved in court during 2008/09.

Reliability, Customer Service and Energy Conservation

Under the objectives of improved reliability and quality customer service, NT Hydro responded to numerous challenges during the year. Record cold temperatures in January and February made it particularly difficult to maintain hydro service to Yellowknife. Despite bitter cold weather, accessibility constraints and ancillary events that negatively impacted efforts to restore power, the Corporation worked with customers to minimize impacts and prevent third party damages. From the customer's perspective the lights were on 99.97% of the time and when the lights did go out, the average time to restore power was 15 minutes.

The Corporation is also concerned about providing high quality customer service. In 2007/08 the customer survey was completed shortly after the conversion to a new billing system and during a time of high fuel costs with numerous riders on customer's bills to recover the higher cost of fuel and recently increased rates. The new billing system implementation was not without its challenges however we are back on track with our billing cycle and in 2008/09 we will be providing customers with additional bill-education materials to assist them to understand the bill and make use of the new features such as the monthly consumption graph and the conservation rate information.

The result of the 2007/08 customer survey indicated that 83% of residential and commercial customers (2006/07 85% and 91%) were satisfied or better with their overall service. NT Hydro continues to take pride in these results however we did note a 10% decrease in customers who provided a good or very good rating and we will be working to improve this result in 2008/09.

Included in the Corporation's strategies to improve customer service were, streetlight conversions; customer communication – newsletters, community meetings and customer appreciation events, communiqués and briefings on rates and riders; customer service training; public awareness notices of power safety issues and delivery of power safety program in schools; and sponsorships and donations – NWT track and field championships, NWT Basketball Association Junior and Senior tournaments, Open Sky Festival, Kid Sport and over one hundred other miscellaneous donations to causes primarily aimed at youth.

In addition, this year, the Corporation sponsored the first Canadian Cancer Society "Relay for Life" fund raiser in Hay River. Employees also rose to the challenge and entered a team in the relay, raising \$33,000 of the over \$200,000 total raised in support of cancer research. NT Hydro service goes beyond providing reliable power - we work and live in the north and we are committed to contribute to the quality of life in the north.

Cost Effective Energy

In 2007/08, the Corporation produced 71% of its generation with hydro and 18% with diesel. The remainder was a mix of purchased natural gas power and gas generation. Low water on the Snare and Bluefish hydro systems in 2008/09 is expected to put upward pressure on diesel generation in communities that would normally be served by hydro power.

Although more expensive than hydro, diesel generation remains the most cost effective way to provide safe reliable power to small communities. This means that rising fuel prices, combined with a small customer base, will continue to impact the price of electricity. In 2001/03 when rates were last set crude oil was \$30 per barrel. During the 2006/08 General Rate Application (GRA) rates were set based on \$80 barrel oil. Unfortunately oil has continued to increase and the summer resupply for 2008/09 was done with oil at \$125 per barrel.

Even after increasing rates to reflect higher fuel costs, two rate riders remain in place (diesel communities and Inuvik) to recover the cost differential in fuel prices over what is included in rates. These riders will have to be increased and additional riders put in place in Yellowknife and Norman Wells to offset the higher fuel costs. The Corporation has fuel stabilization funds that track the difference between the price of fuel used for rate setting purposes and the actual fuel price used to provide service.

Yellowknife is served by hydro generation and rates are based on average water. Water stabilization funds and fuel stabilization funds were established in 1997. The balances in the funds have been such that no riders have been put in place for these funds since their inception. In 2008/09 riders will be required to collect the costs in the water stabilization fund that have built

up since 1997 as well as in the diesel fund. Due to low water conditions on the Snare system it will be necessary to burn 3.3 million liters to provide diesel generation during 2008/09.

Profitability, financial strength and sound business practices

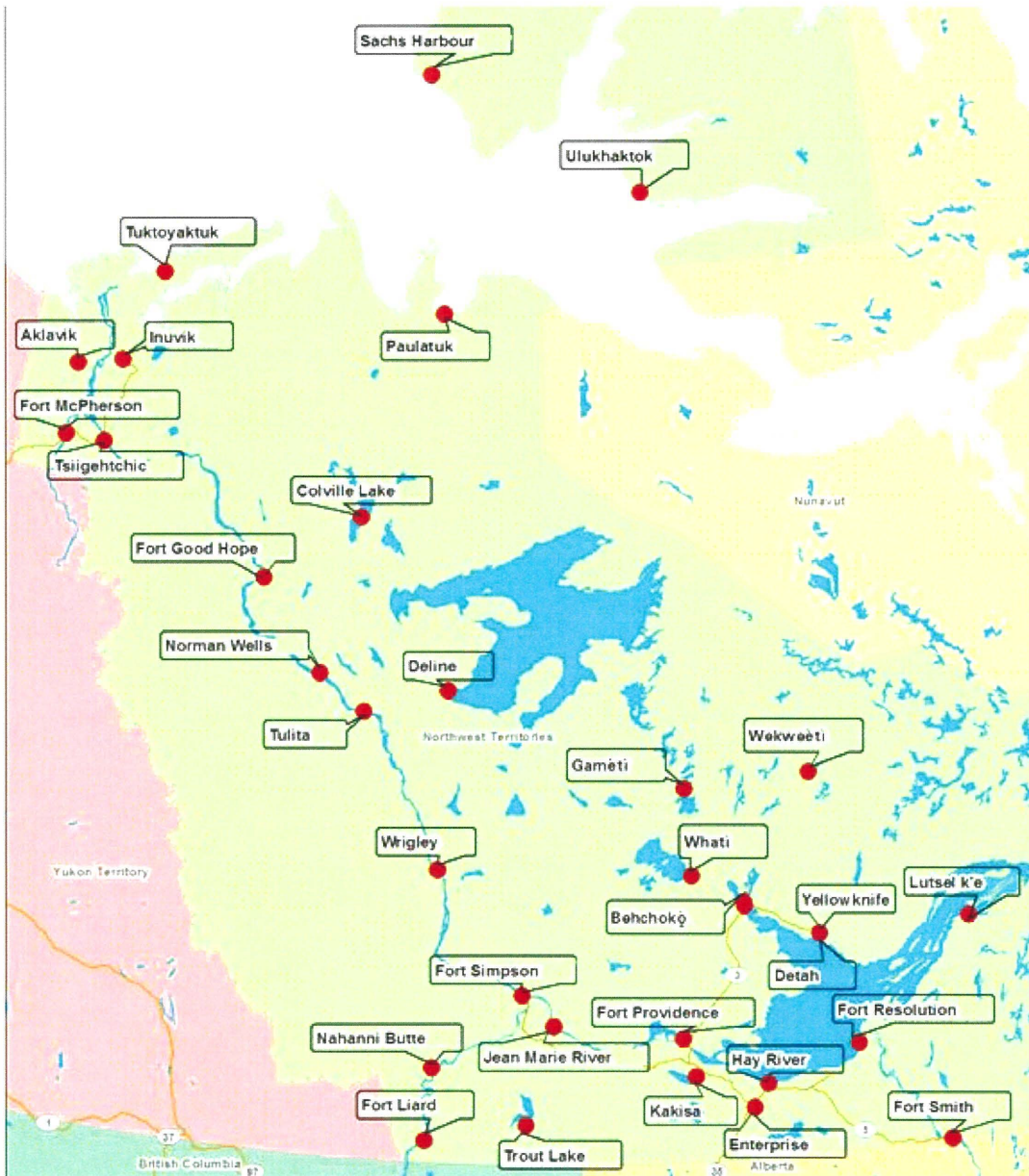
The Corporation’s return on average equity for 2007/08 was 9.2%. The target return on regulated equity approved by the Public Utilities Board (PUB) was 9.25%. In addition to profitability, the Corporation sets a number of performance measures designed to measure differing aspects of corporate performance. In 2007/08 performance targets were set for system reliability, efficiency, safety, human resource retention and financial results. The 2007/08 Objectives and Strategies were set to maximize performance in each category.

Performance Measure	Long Term Target	2007/08 Expected Results	2007/08 Actual Results	2008/09 Expected Results
Debt/ (Debt + Equity)	55/45	58/42	58/42	58/42
Plant Efficiency	3.60	3.59	3.66	3.66
Operating Cost per kWh generated	17 -19 cents/kWh	17.5 cents/kWh	18.3 cents/kWh	18.0 cents/kWh
Safety – Average lost workdays per 200,000 hrs worked – last 5 years	0	2.6	17.2	8.36
System Availability	100%	99.98%	99.97%	99.98%
Net Staff Turnover	9.0%	6.3%	3.8%	9.0%

Full-service utility

The Corporation distributes electricity to the end use consumers in 26 of 31 communities and supplies electricity on a wholesale basis to 2 distributing utilities, which in turn retail electricity to customers in Yellowknife, and the Hay River Area. The Corporation's facilities include hydroelectric, diesel and natural gas generation plants, transmission systems, and numerous isolated electrical distribution systems. The Corporation also owns and operates alternative energy assets used for the supply of residual heat, solar power and co-generation.

The insert map illustrates the operating area of the Corporation, a land area that rivals the largest province in Canada. The detailed map highlights the isolation of many of the communities that we serve – some accessible only by air, barge or winter road. The population is divided among the communities, 25 of which have a population less than 1,000 and only 6 of the 31 communities have more than 1,000 persons, none greater than 20,000. Total electrical load is approximately 68 MW with isolated power systems having generating capacities ranging from 65 MW at Snare/Yellowknife to 240 kW at Colville Lake and with the exception of the two small hydro grids these systems are isolated and unconnected, each must be planned for and operated independently.



Meeting our workforce needs

Planning for the future also includes succession planning. All senior and middle management positions have succession plans that are updated annually and that include plans for on the job and advanced training to help develop our workforce from within. Within the utility industry there are some positions that are extremely difficult to recruit to and these pose a different challenge. The Corporation initiated a line apprenticeship program in 2004/05 and this program continues in place. During 2007/08 three more apprentice positions were added for the electrical and mechanical trades. The apprentice programs are aimed at working with northerners. We provide access to education and skills training that might not otherwise be available and in return, we gain a trained employee who has ties to the north and is likely to be with us for years to come.

Financial Results

Net income for 2007/08 is \$8.328 million, an increase from 2006/07 of \$1.883 million. Increases approved in a general rate application and strong sales due to extended cold winter weather contributed to this year over year increase which is not anticipated to persist in future years.

The Corporation recorded electricity sales of \$82.5 million in 2007/08 (not including fuel rider revenue), up \$5.8 million or 7.5% from the prior year. Extremely cold winter weather contributed to sales increases in all customer categories. Prices were also up approximately 7% from 2006/07 as the result of the completion of the GRA.

Other revenues were up from prior year due to contribution funding received from the territorial government. This increase was offset by expenses related to mini-hydro development in three NWT communities. Operating expenses for 2007/08 included a \$2.5 million fuel expense recorded as an offset to the fuel rider revenue therefore having no impact on net income. Absent that amount operating expenses were up \$3.9 million from 2006/7. The increase was led by a \$1 million increase in fuel expense due to the increased sales and increase in fuel prices permitted under the GRA. Salaries and wages were up \$1.3 million mainly attributable to the new collective agreement. During the year NT Hydro negotiated a four year collective agreement expiring December 31, 2011. This agreement has inflation increases of 4%, 4%, 4.5% and 4.75% January 1 of each year of the agreement. Supplies and services were also up \$1 million however \$0.4 million of that was offset by funding from the territorial government. The balance of expenses increased in line with inflation.

Interest expense is up \$0.3 million from the prior year due to an increase in interest on short term debt. The Corporation converted \$25.0 million in short term debt to long term after the year end. In 2008/09 NT Hydro will retire the March 9, 2009 11% bond. Funds to repay this debt have been set aside in the sinking fund.

NT Hydro adopted the accounting requirements for financial instruments. Transitioning to these new requirements resulted in a decrease to Shareholders equity of \$0.1 million. As sinking fund debentures begin to be repaid (\$55 million will be repaid over the next 4 years) the amount of investments in sinking funds will be greatly reduced. The Corporation no longer issues sinking fund debentures.

As a result of its regulated operations NT Hydro operates numerous regulatory accounts (e.g. fuel stabilization funds, deferral accounts, etc.). As a result of this regulatory treatment and amounts outstanding from the GRA the Corporation has \$23.5 million in regulatory assets that it is funding. Interest is received on these investments. Over the next 2 years the Corporation will be collecting over half of this amount.

Under its new corporate structure NTPC now pays a dividend to its parent, NT Hydro, in addition to continuing to pay a dividend to the GNWT to fund the Territorial Power Support Program. The 2007/08 dividend to NT Hydro of \$0.8 million is similar to the expenses NTPC incurred when NTEC(03) and Sahdae were subsidiaries of NTPC.

General Rate Application 2006/08

The Corporation finalized its Phase I GRA in May 2008 a year after the public hearings were completed. Riders are in place that will see the revenue shortfall from 2006/07 collected by December 2008. In October 2008 the PUB approved final rates related to the 2006/08 GRA, approved adjustments to rate riders to collect the shortfall from the 2006/08 GRA, approved rate

riders to collect balances in the stabilization funds and directed the Corporation to capitalize the fuel cost associated with the Bluefish capital projects.

Financing Activities

The Corporation funded its capital program and regulatory costs with short term debt. Short term debt increased \$20.1 million from 2006/07. A long term bond issue was finalized August 1, 2008 for \$25 million to convert short debt related to capital projects.

Capital Expenditures

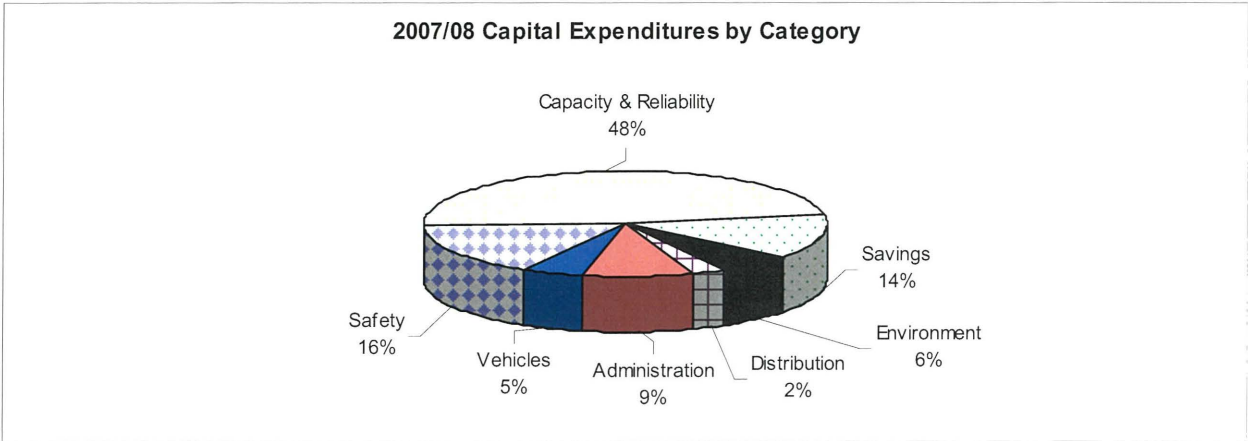
Each year the Corporation makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. In 2007/08 the Corporation's capital program totaled \$16.9 million with the majority of projects aimed at maintaining or improving reliability. The capital identified for 2008/09 continues the trend with most projects in the category of capacity and reliability.

Major projects undertaken during 2007/08 included continued work to refurbish the Snare Rapids hydro facility originally constructed in 1948, upgrades to the Bluefish hydro facility acquired in 2003 but originally constructed in 1938 and completion of a new diesel plant in Aklavik. The Corporation continues to upgrade its fuel handling system to reduce the risk to the environment. Two new portable gensets were acquired to increase the reliability of our service. A multi year project is also underway to replace the SCADA system that monitors and controls hydro sites and to add control over diesel sites.

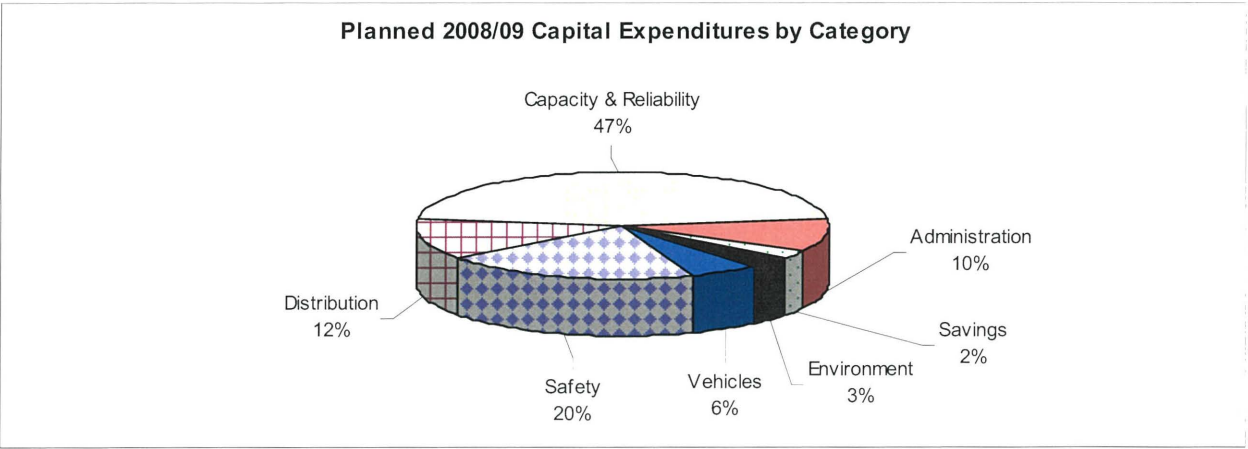
2008/09 will see a continuation of the refurbishments and upgrades at the hydro sites and the implementation of new SCADA systems. The transmission line to Fort Resolution will be upgraded to provide 3 phase power to the community. Substantial work required as a result of dam safety reviews will also be undertaken.

The following charts illustrate the breakdown of capital spending by category for 2007/08 and the planned spending in 2008/09 which totals \$18.1 million.

2007/08 Capital Expenditures by Category



Planned 2008/09 Capital Expenditures by Category



Outlook for 2008/09

The Corporation may see some increased sales from spin off activity related to diamond mine construction or oil and gas exploration but has insufficient information at this time to quantify the impact. We anticipate that there will be more competition for labour, materials, equipment and supplies and logistical constraints due to limited transportation infrastructure. At this time, sales growth is not expected to keep pace with these inflationary pressures and the Corporation will need to adjust rates to reflect increased costs in the near future.

The Corporation will continue to implement new accounting and work management system. Work will begin on the implementation of International Financial Reporting Standards that will apply to NT Hydro in its 2012 year. These projects will involve significant internal and external resources and are aimed at improving resource allocation, customer service and business opportunity response.

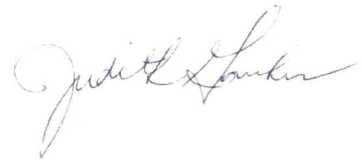
Safety and environment will continue to be emphasized in fiscal 2008/09. An extra effort will be made to ensure NTPC's safety record returns to its historical low level. The Corporation will continue to implement its ISO 14001 environmental management system.

2008/09 will see the need for numerous riders to collect the GRA shortfall from 2007/08 as well as increased fuel costs. NTPC will continue to provide customers with energy efficiency information to assist them in lowering their consumption, the best way to lower their overall costs. NT Hydro will also continue to support the review of mini hydro projects and the wind demonstration project. NT Hydro will also provide support to the GNWT as it undertakes its review of how rates are set, general utility regulation and its overall subsidy program.

Negotiations will continue with the Tlicho on the development of the next hydro site to serve Yellowknife. Negotiations will also continue with Fortune Minerals to provide power to their Nico Mine under development near our Snare hydro system.

NT Hydro's six hydro sites are 70, 60, 50, 45, 35 and 12 years old and will need substantial investment to upgrade them over the next 10 years. This program is currently underway and will continue for many years to come.

Our strategic plan is updated regularly to adapt to the changing environment but holds to the long term vision. We continue to look for ways to contribute to energy development in the North, improve on our service to Customers and to focus our resources to provide environmentally sound, safe, reliable, cost-effective energy and related services in the territories.



Judith Goucher
Director, Finance & CFO

**NORTHWEST TERRITORIES HYDRO CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008**

Management's Responsibility for Financial Reporting

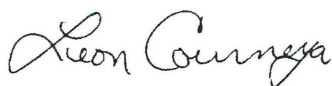
The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where GAAP permits alternative accounting methods, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories 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 aims, 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 her opinion on the consolidated financial statements. She also considers whether the transactions that come to her 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.



Leon Courneya, FCA
President & CEO



Judith Goucher, MA
Director, Finance & CFO

Hay River, NT
October 31, 2008



AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Hydro Corporation

I have audited the consolidated balance sheet of the Northwest Territories Hydro Corporation as at March 31, 2008 and the consolidated statements of operations, shareholder's equity, and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in the method of accounting for financial instruments as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of the Northwest Territories and regulations, the *Northwest Territories Hydro Corporation Act*, and the by-laws of the Corporation and its wholly-owned subsidiaries, with the exception that the Corporation did not meet its statutory deadline for submitting its annual report to its Minister as described in the following paragraph.

Section 100 of the *Financial Administration Act* of the Northwest Territories requires the Corporation to submit its annual report to its Minister not later than 90 days after the end of its financial year, or an additional period, not exceeding 60 days, that the Minister of Finance may allow. The Corporation did not meet its statutory deadline for the year ended March 31, 2008.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
September 26, 2008 except as to Note 25 which is as at October 31, 2008

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2008</u>	<u>2007</u>
Revenues		
Sale of power	\$ 70,617	\$ 64,115
GRA shortfall (Notes 4 and 25)	7,742	7,795
Fuel riders applied against GRA shortfall (Note 4)	4,095	4,759
Fuel riders (Note 4)	2,585	2,680
Other revenues (Note 5)	1,736	1,339
	<u>86,775</u>	<u>80,688</u>
Expenses		
Salaries and wages	19,016	17,759
Fuels and lubricants	18,719	17,758
Fuel offset to rider revenue (Note 4)	2,527	2,601
Amortization (Note 6)	13,222	12,861
Supplies and services	11,829	10,795
Travel and accommodation	2,276	1,995
	<u>67,589</u>	<u>63,769</u>
Earnings from operations	19,186	16,919
Interest income	162	236
Earnings before interest expense	19,348	17,155
Interest expense (Note 7)	11,020	10,710
Net income	<u>\$ 8,328</u>	<u>\$ 6,445</u>
Other comprehensive income		
Unrealized gains on available-for-sale marketable securities	374	-
Reclassification of losses on available-for-sale marketable securities to income	(58)	-
Other comprehensive income	<u>316</u>	<u>-</u>
Comprehensive income	<u>\$ 8,644</u>	<u>\$ 6,445</u>

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2008</u>	<u>2007</u>
Share capital (Note 20)	\$ 43,129	\$ 43,129
Retained earnings		
Retained earnings at beginning of year	45,578	42,633
Net income	8,328	6,445
Transition adjustment on adoption of financial instruments standards (Note 3)	(482)	-
Dividends declared (Note 15)	(3,500)	(3,500)
Retained earnings at end of year	<u>\$ 49,924</u>	<u>\$ 45,578</u>
Accumulated other comprehensive income		
Balance at beginning of year	\$ -	\$ -
Transition adjustment on adoption of financial instruments standards (Note 3)	382	-
Other comprehensive income	316	-
Accumulated other comprehensive income at end of year	<u>\$ 698</u>	<u>\$ -</u>
Shareholder's equity at end of year	<u>\$ 93,751</u>	<u>\$ 88,707</u>

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

NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2008</u>	<u>2007</u>
Operating activities:		
Cash receipts from customers	\$ 86,118	\$ 70,809
Cash paid to suppliers and employees	(68,922)	(45,486)
Interest received	142	236
Interest paid	(14,009)	(12,477)
Cash flows provided by operating activities	<u>3,329</u>	<u>13,082</u>
Investing activities:		
Property, plant and equipment constructed or purchased	(18,586)	(16,555)
Proceeds from insurance (Note 8)	-	2,193
Cash flows used in investing activities	<u>(18,586)</u>	<u>(14,362)</u>
Financing activities:		
Repayment of long-term debt	(1,105)	(1,067)
Sinking fund instalments	(1,910)	(2,000)
Dividends paid	(3,500)	(3,500)
Net proceeds from short-term borrowings	20,120	4,800
Repayment of net lease obligation	15	(23)
Government contributions (Note 17)	2,000	1,045
Cash flows provided by (used in) financing activities	<u>15,620</u>	<u>(745)</u>
Net increase (decrease) in cash	363	(2,025)
Cash at beginning of year	<u>335</u>	<u>2,360</u>
Cash at end of year	<u>\$ 698</u>	<u>\$ 335</u>

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

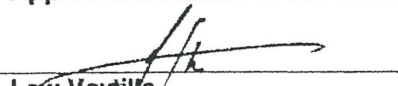
NORTHWEST TERRITORIES HYDRO CORPORATION


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

	<u>2008</u>	<u>2007</u>
Assets		
Property, plant and equipment (Notes 9 and 17)		
Plant in service	\$ 336,978	\$ 316,220
Less accumulated amortization	(90,702)	(83,259)
	<u>246,276</u>	<u>232,961</u>
Construction work in progress	10,357	13,352
	<u>256,633</u>	<u>246,313</u>
Current assets		
Cash	698	335
Accounts receivable (Note 10)	22,105	17,848
Inventories	4,412	3,464
Prepaid expenses	491	507
	<u>27,706</u>	<u>22,154</u>
Other long-term assets		
Sinking fund investments (Note 11)	45,924	41,681
Regulatory assets (Note 4)	23,523	11,659
Other	-	643
	<u>69,447</u>	<u>53,983</u>
	<u>\$ 353,786</u>	<u>\$ 322,450</u>
Liabilities and Shareholder's Equity		
Long-term debt		
Long-term debt, net of sinking fund investments (Note 12)	\$ 84,322	\$ 110,297
Sinking fund investments (presented as assets)	45,924	41,681
Net lease obligation (Note 13)	1,446	1,461
	<u>131,692</u>	<u>153,439</u>
Current liabilities		
Short-term debt (Note 14)	32,920	12,800
Accounts payable and accrued liabilities	21,989	16,377
Current portion of long-term debt (Note 12)	21,153	1,105
Dividends payable (Note 15)	3,500	3,500
	<u>79,562</u>	<u>33,782</u>
Other long-term liabilities		
Regulatory liabilities (Note 4)	33,955	34,745
Asset retirement obligations (Note 16)	5,461	4,325
Deferred government contributions (Note 17)	3,775	1,775
Environmental liabilities (Note 18)	3,240	3,240
Employee future benefits (Note 19)	2,350	2,437
	<u>48,781</u>	<u>46,522</u>
Shareholder's equity	<u>93,751</u>	<u>88,707</u>
	<u>\$ 353,786</u>	<u>\$ 322,450</u>
Commitments and contingencies (Note 21)		

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

Approved on behalf of the Board:


Lew Voytilla
Chairman of the Board


Louis Sebert
Director

NORTHWEST TERRITORIES HYDRO CORPORATION

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

1. Authority and operation

In 2007/08 the Northwest Territories Power Corporation (NTPC) went through a corporate restructuring and a new parent company, the Northwest Territories Hydro Corporation (NT Hydro) was established in 2007 under the *Northwest Territories Hydro Corporation Act*. The new structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the Government of the Northwest Territories' (Government or GNWT) investment in NTPC. The assets and liabilities of NTPC were transferred to NT Hydro, a related party, at their carrying values as there was no substantive change in ownership. The restructuring also involved the transfer of two subsidiaries, the Northwest Territories Energy Corporation (03) Limited (NTEC(03)) and Sahdae Energy Ltd. (Sahdae) from NTPC to NT Hydro. The assets and liabilities of both NTEC(03) and Sahdae were transferred from NTPC to NT Hydro, a related party, at their respective carrying values as there was no substantive change in ownership. As this restructuring did not result in a change of control, it has been treated as a continuity of interest, and the comparatives are that of NTPC.

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 owns all shares of NT Hydro.

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 established under the *Northwest Territories Power Corporation Act* and has two wholly-owned subsidiaries, the Northwest Territories Energy Corporation Ltd. (NTEC) and 5383 NWT Ltd. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility. NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson. 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 Sahdae. NTEC(03) is wholly-owned by NT Hydro and has two operations, the development of hydro electric business opportunities outside the regulated business and an investment in Deze Energy Corporation, which is pursuing the development of a hydroelectric project to provide power to the 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) and Sahdae and 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.

2. Accounting policies

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

NORTHWEST TERRITORIES HYDRO CORPORATION

Rate regulation

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

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

The PUB uses cost of service regulation to regulate NTPC's earnings on a rate of return basis. In the 2006/08 General Rate Application (GRA) the PUB approved an allowed rate of return of 9.25% for 2007/08. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

The PUB is required by the *Public Utilities Act* to review the affairs, earnings and accounts of NTPC a minimum of every three years. The regulatory hearing process used to establish or change rates typically begins when NTPC makes a 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.

Revenues

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

Property, plant and equipment

Property, plant and equipment 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 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 and offset the amortization charge of the assets to which they relate. NTPC retains ownership of these assets.

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

Tangible and intangible assets are reviewed annually to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

NORTHWEST TERRITORIES HYDRO CORPORATION

Amortization

Amortization of property, plant and equipment is provided 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. Amortization is suspended when assets are removed from service for an extended period of time.

Included in amortization expense and regulatory liabilities is a reserve for future removal and site restoration. The 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.

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

Inventories

Fuels and lubricants and materials and supplies are valued at weighted average cost. Obsolete inventory is recorded at salvage value in the period when obsolescence is determined.

Public Service Pension Plan

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

Employee future benefits

Under the terms and conditions of employment, employees may earn non-pension benefits for resignation, retirement and ultimate removal costs based on years of service. 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.

Asset retirement obligations

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

The fair value of the estimated asset retirement obligations are recorded as a liability under other long-term liabilities with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by

NORTHWEST TERRITORIES HYDRO CORPORATION

calculating accretion (interest) on the liability using NT Hydro's credit adjusted risk-free rate. The offsetting capitalized asset retirement costs are amortized over the estimated useful life of the related asset.

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. NT Hydro reviews its estimates of future environmental liabilities on an on-going basis.

Government contributions

The contributions approved for purchasing property, plant and equipment are recognized as a deferred capital contribution and are amortized into income on the same basis as the amortization of the related property and equipment. All other contributions are recognized as revenue in the year the contributions are spent.

Measurement uncertainty

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

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

Financial instruments

NT Hydro adopted the following policies with respect to the recognition and measurement of financial instruments.

Classification of financial instruments:

Upon adopting Section 3855, NT Hydro classified each of its financial assets as held-for-trading, available-for-sale, loans and receivables or held-to-maturity and each of its financial liabilities as held-for-trading or other financial liabilities.

Held-for-trading

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

NORTHWEST TERRITORIES HYDRO CORPORATION

Available-for-sale

Assets that are not actively traded, but may still be sold as a result of changes in market conditions or for liquidity purposes are classified as available-for-sale. NT Hydro classified its equity investments as well as its fixed income investments, other than immunized investments, as available-for-sale. These assets are recorded at fair value with any unrealized gains and losses recorded in other comprehensive income. As the gains and losses are realized, they are recorded in interest income.

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 method. NT Hydro classified its accounts receivable as loans and receivables.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets, other than those assets that meet the definition of loans and receivables, with fixed or determinable payments and a fixed maturity, which an entity has the positive intention and ability to hold to maturity. NT Hydro classified its immunized investments as held-to-maturity. These assets are recorded at amortized cost using the effective interest method.

Other financial liabilities

NT Hydro classified its long-term debt as other financial liabilities, which is accounted for at amortized cost using the effective interest method.

Other policy decisions:

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

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

Hedging relationships and derivative financial instruments

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

Future accounting changes

Financial instruments

In December 2006 the Canadian Institute of Chartered Accountants (CICA) issued two new accounting standards: Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, which will become effective for NT Hydro beginning fiscal year 2008/09. Section 3862 and Section 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation. The presentation requirements prescribed by Section 3863 are consistent with the requirements of Section 3861. The adoption of Section 3862 will result in enhanced disclosures with respect to risk management policies as well as the nature and extent of risk arising from financial instruments. These risks typically include credit risk, liquidity risk, and market risk.

NORTHWEST TERRITORIES HYDRO CORPORATION

Capital disclosures

In December 2006 the CICA also issued accounting standard Section 1535, Capital Disclosures, which will become effective for NT Hydro beginning fiscal year 2008/09. Section 1535 will result in both quantitative and qualitative disclosure, and will enable users to evaluate an entity's objectives, policies and processes for managing financial capital.

International financial reporting standards

In 2006 the Accounting Standards Board (AcSB) of Canada announced its intention to adopt International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable entities. In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be January 1, 2011. NT Hydro is currently assessing the impact to the consolidated financial statements of adopting IFRS.

Inventories

In June 2007 the CICA issued Section 3031, Inventories, which will affect the measurement and disclosure of inventory. The measurement changes include the requirement to measure inventories at the lower of cost and net realizable value, the use of the specific cost method for inventories that are not ordinarily interchangeable or for goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories will also be enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. This Section is effective for fiscal year 2008/09. NT Hydro is currently evaluating the impact of this new recommendation.

3. Changes in accounting policies

Financial instruments

On April 1, 2007, NT Hydro adopted the new recommendations of the CICA Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. The adoption of these standards resulted in changes in the accounting for financial instruments as well as transition adjustments to opening retained earnings and opening accumulated other comprehensive income. Comparative figures for prior periods have not been restated. Section 3865, Hedges, had no impact as NT Hydro does not account for its derivatives using hedge accounting.

a) Transition adjustments

In accordance with the new standards on April 1, 2007, where appropriate, NT Hydro's financial assets and liabilities were re-measured with the adjustment recorded in either opening retained earnings or opening accumulated other comprehensive income.

	<u>Retained earnings increase/(decrease)</u>	<u>Accumulated other comprehensive income increase/(decrease)</u>
Classification of sinking fund investments		
Held-for-trading	\$ (509)	\$ -
Available-for-sale	-	382
Adjustment for effective interest method	27	-
	<u>\$ (482)</u>	<u>\$ 382</u>

NORTHWEST TERRITORIES HYDRO CORPORATION

4. Financial statement effects of rate regulation

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

Regulatory assets and liabilities

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

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

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent NTPC's estimate of future costs to dispose of assets and remediate its sites and the amounts directly paid by customers for assets. These liabilities reduce the future rate impact to customers.

Regulatory assets

	2008	2007	Remaining recovery period
Rate stabilization funds	\$ 7,388	\$ 3,018	Determined by PUB
Reserve for injuries and damages	3,029	2,597	Determined by PUB
Regulated employee future benefits	2,323	1,952	Determined by PUB
Regulatory costs	1,668	1,231	Determined by PUB
Financing cost	894	967	25 years
Water licensing deferral account	704	600	Determined by PUB
Snare Cascades deferral account	470	707	Determined by PUB
Other regulatory assets	137	200	Determined by PUB
Normalized overhaul costs	(967)	(1,187)	Determined by PUB
2006/07 GRA receivable (a)	-	1,574	9 months
2007/08 GRA receivable	7,877	-	Determined by PUB
	<u>\$ 23,523</u>	<u>\$ 11,659</u>	

(a) 2006/07 GRA receivable is currently \$750 and is classified under accounts receivable (see Note 10).

Rate stabilization funds

The Rate stabilization funds were established by the PUB in 1997/98 through Decision 1-97. 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

NORTHWEST TERRITORIES HYDRO CORPORATION

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 12 – 24 months.

In the absence of rate regulation, GAAP would require that actual fuel expenses be included in the operating results of the year that they are incurred. In 2007/08, fuel expenses were deferred and consequently lower due to the differences in fuel prices of \$2,863 (2007 - \$870) and the volume of available water generation of \$3,566 (2007 - \$214). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$232 (2007 – \$191).

There were four fuel stabilization fund rate riders in effect in 2007/08. These riders collected revenues related to fuel expenses deferred in prior years. In 2007/08 these riders collected \$6,385 (2007 – \$7,056) of which \$4,095 (2007 – \$4,759) was reported as fuel riders applied against the 2007/08 GRA shortfall. The remaining amount of the riders collected of \$2,290 (2007 - \$2,297) was reported as fuel rider revenues with an offsetting and equal charge to fuel expense.

The net effect of rate regulation on net income was an increase of \$4,370 (2007 – decrease of \$1,022).

Reserve for injuries and damages

The Reserve for injuries and damages includes costs for uninsured and uninsurable losses and the deductible portion of insured claims. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the types and size of emergencies NTPC faces during a given year. In the 2006/08 GRA, the PUB approved \$670 to be included in annual expenses for this fund. In 2007/08 actual costs deferred to this account totalled \$1,102 (2007 - \$688). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The net effect of rate regulation on net income was an increase of \$432 (2007 - \$18).

Regulated employee future benefits

Regulated employee future benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 19). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The net effect of rate regulation on net income was an increase of \$371 (2007 - \$68).

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 2007/08 actual costs deferred to this account totalled \$1,037 (2007 - \$599). The net effect of rate regulation on net income was an increase of \$437 (2007 – decrease of \$1).

NORTHWEST TERRITORIES HYDRO CORPORATION

Financing cost

The financing cost relating to the issuance of a long-term debt is amortized on a declining balance basis over the 30 year term of the related debt. There are 25 years remaining in the term of the related debt. In the absence of rate regulation, GAAP would require that the financing cost be expensed when incurred. The effect of rate regulation on net income was a decrease of \$73 (2007 – of \$76).

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 2007/08 totalled \$241(2007 - \$102). In the absence of rate regulation, GAAP would require that the cost of these events be expensed or capitalized as they occurred. The net effect of rate regulation on net income was an increase of \$104 (2007 – decrease of \$116).

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 over the next ten years to 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 incurred. A portion of the rider is to cover the costs of financing the balance in the fund, therefore the revenues and fuel expense resulting from the implementation of the Snare Cascades rider are not offsetting. In 2007/08 as a result of the increase in fuel expense, the effect of rate regulation on net income was a decrease of \$237 (2007- \$304). The rider rate set to collect the balance in this fund was adjusted early in 2006 to draw the collection term out to 2011.

Other regulatory assets

Other regulatory assets include costs incurred for intangible assets 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 amortization 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 decrease by \$12 (2007 – \$0) and annual amortization expense would decrease by \$51 (2007 – \$72). The net effect of rate regulation on net income was a decrease of \$63 (2007 – \$72).

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 the actual overhaul costs be expensed as they were incurred. In the 2006/08 GRA, the PUB approved \$1,693 to be included in annual expenses for this fund. The balance in the account will depend on the frequency and the cost of overhauls and therefore the recovery period is considered to be indeterminate. In 2007/08 actual costs deferred to this account totalled \$1,913 (2007 - \$804). The net effect of rate regulation on net income was an increase of \$220 (2007 – decrease of \$889).

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2006/07 GRA receivable

Phase I of NTPC's 2006/08 GRA is complete. The PUB approved a revenue shortfall for 2006/07 of \$6,590 which is the net amount after applying \$4,759 fuel rider revenue and \$1,205 interim rate rider revenue to the shortfall balance. The PUB also approved a rate rider and collection period. NTPC collected \$5,840 of the net receivable in 2007/08. The current portion of the 2006/07 GRA shortfall receivable balance was transferred to accounts receivable and will be collected by December 31, 2008.

2007/08 GRA receivable

The PUB approved a GRA revenue shortfall for 2007/08 of \$7,877 which is the net amount after adding \$138 of interest receivable and applying \$4,095 fuel rider revenue to the shortfall balance. In Decision 16-2008 the PUB also approved interest on the 2006/07 and 2007/08 GRA shortfalls and directed NTPC to make an application in 2008/09 for a rider to collect the remaining 2007/08 shortfall.

Fuel rider revenues

Rider revenues with an associated fuel expense:

	2008		2007	
	Rider revenues	Associated fuel expense	Rider revenues	Associated fuel expense
Rate stabilization funds	\$ 2,290	\$ 2,290	\$ 2,297	\$ 2,297
Snare Cascades deferral account	295	237	383	304
	<u>\$ 2,585</u>	<u>\$ 2,527</u>	<u>\$ 2,680</u>	<u>\$ 2,601</u>

Regulatory liabilities

	2008	2007	Remaining settlement period
Reserve for Future Removal and Site Restoration	\$ 30,294	\$ 30,969	Determined by PUB
Deferred revenues	3,661	3,776	Determined by PUB
	<u>\$ 33,955</u>	<u>\$ 34,745</u>	

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 the NTPC's operating sites that are not otherwise related to an asset retirement obligation or environmental liabilities. This 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 plant, property and equipment of those asset categories:

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	<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. In the absence of rate regulation NTPC's 2007/08 expenses would have been \$1,225 (2007 - \$858) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,686 (2007 - \$1,616) higher than they would be in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$461 (2007 – \$758).

Deferred revenues

Deferred revenues reflect contributions to aid in the construction and acquisition of property, plant and equipment. Deferred revenues are amortized on the same basis as the related property, plant and equipment, and the resulting credit is offset against the corresponding provision for amortization of property, plant and equipment (Note 6). In the absence of rate regulation, GAAP would require that the contributions received in a given year be recorded in revenues for that year and amortization expense would not be offset by the amortization of the deferred revenues. The remaining recovery period is indeterminate as the account is increased each year by new contributions received from customers and drawn down by the straight-line amortization of the account balance. The amortization rates for deferred revenues are the same as those found in Note 2 under *Amortization*. In 2007/08, revenues were \$277 (2007 - \$245) lower than they would have been and amortization on property, plant, and equipment was \$392 (2007 - \$396) lower than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is an increase of \$115 (2007 – \$151).

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 2007/08. The AFUDC rate includes a component for the return on equity. In the absence of rate regulation, GAAP would require that Interest During Construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore 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 7). 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 2007/08, approximately \$372 (2007 - \$430) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB approved cost of capital structure.

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The total net effect of rate regulation on net income is as follows:

	2008	2007
Rate stabilization funds	\$ 4,370	\$ (1,022)
Reserve for injuries and damages	432	18
Regulated employee future benefits	371	68
Regulatory costs	437	(1)
Financing cost	(73)	(76)
Water licensing deferral account	104	(116)
Snare Cascades deferral account	(237)	(304)
Other regulatory assets	(63)	(72)
Normalized overhaul costs	220	(889)
Reserve for future removal and site restoration	(461)	(758)
Deferred revenues	115	151
Equity component of AFUDC	372	430
Total increase (decrease) in net income due to rate regulation	<u>\$ 5,587</u>	<u>\$ (2,571)</u>

5. Other revenues

	2008	2007
Contract work	\$ 474	\$ 447
Government assistance (a)	397	48
Pole rental	249	266
Interest on GRA shortfall	222	-
Connection fees	187	193
Heat revenues	123	141
Miscellaneous	84	244
	<u>\$ 1,736</u>	<u>\$ 1,339</u>

a) The GNWT provided \$500 for feasibility studies of mini and immersion hydro projects. Any funding not expended is repayable to the GNWT and as a result, \$150 of the funding for mini hydro feasibility studies was not expended and is recorded in accounts payable and accrued liabilities. NT Hydro and its subsidiaries have other agreements with the territorial and federal governments to provide funding assistance to offset costs incurred in its apprenticeship, rate review and micro turbine programs. The funding provided under these agreements in 2008 was \$47 (2007 - \$48).

6. Amortization

	2008	2007
Property, plant and equipment	\$ 10,390	\$ 10,033
Deferred revenues (Note 4)	(392)	(396)
Regulatory and other assets (Note 4)	3,224	3,224
	<u>\$ 13,222</u>	<u>\$ 12,861</u>

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7. Interest expense

	<u>2008</u>	<u>2007</u>
Interest on long-term debt	\$ 13,084	\$ 13,158
Short-term debt financing costs	857	451
Sinking fund income	(2,114)	(1,878)
Capitalized allowance for funds used during construction	(807)	(1,021)
	<u>\$ 11,020</u>	<u>\$ 10,710</u>

8. Insurance proceeds and expenses

In 2007/08 NT Hydro received \$nil (2007 - \$2,193) cash as settlement for prior year's claims.

9. Property, plant and equipment

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Electric power plants	\$ 199,644	\$ (54,988)	\$ 144,656	\$ 132,920
Transmission and distribution systems	70,442	(15,985)	54,457	54,918
Electric power plant under capital lease	26,342	(4,729)	21,613	22,019
Warehouse, equipment, motor vehicles and general facilities	27,899	(9,564)	18,335	15,556
Other utility assets	4,193	(1,209)	2,984	3,185
Other	8,458	(4,227)	4,231	4,363
	<u>336,978</u>	<u>(90,702)</u>	<u>246,276</u>	<u>232,961</u>
Construction work in progress	10,357	-	10,357	13,352
	<u>\$ 347,335</u>	<u>\$ (90,702)</u>	<u>\$ 256,633</u>	<u>\$ 246,313</u>

Engineering and other direct overhead expenses capitalized during the year amounted to \$1,170 (2007 - \$1,388).

10. Accounts receivable

	<u>2008</u>	<u>2007</u>
Utility	\$ 18,676	\$ 10,075
Non-utility	2,865	3,091
GRA receivable 2006/07 (Note 4)	750	5,017
Allowance for doubtful accounts	(186)	(335)
	<u>\$ 22,105</u>	<u>\$ 17,848</u>

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11. 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 7).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 23. NT Hydro realized a mark to market return of 5.90% (2007 – 5.70%) on the general portfolio of sinking fund investments.

General portfolio

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

Immunized investments

Between February 2006 and November 2006 NT Hydro immunized a portion of the sinking fund investments for the redemption of the March 9, 2009, Sinking Fund Debenture. The assets held in Immunized Investments consist of federal government guaranteed securities. NT Hydro intends to hold these investments to maturity.

	2008		2007	
	Class value	Weighted average effective rate of return ⁽¹⁾	Class value	Weighted average effective rate of return ⁽¹⁾
Held-for-trading (fair value)				
Cash & short term investments	\$ 1,361	2.90%	\$ 1,044	4.40%
Available-for-Sale (fair value)				
Corporate bonds	11,142	5.52%	10,683	5.26%
Federal Government guaranteed	10,685	4.14%	9,595	4.74%
Provincial Government guaranteed	3,099	4.98%	2,304	4.89%
Municipal Government guaranteed	2,999	5.70%	3,053	5.77%
Canadian equities	1,570	(4.98%)	525	3.03%
	29,495		26,160	
Held-to-Maturity (amortized cost)				
Federal Government guaranteed	15,068	4.07%	14,477	4.07%
Total	\$ 45,924		\$ 41,681	

¹ Canadian 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.

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12. Long-term debt

	<u>2008</u>	<u>2007</u>
5.995% debenture, due December 15, 2034	\$ 24,834	\$ 25,000
11% sinking fund debentures, due March 9, 2009	19,993	20,000
10 3/4% sinking fund debentures, due May 28, 2012	19,978	20,000
6.63% amortizing debenture, due December 1, 2032	16,522	17,333
11 1/8% sinking fund debentures, due June 6, 2011	14,949	15,000
5% debenture, due July 11, 2025	14,902	15,000
6.33% sinking fund debentures, due October 27, 2018	9,943	10,000
8.41% sinking fund debentures, due February 27, 2026	8,667	8,700
9.11% debenture series 3, due September 1, 2026 repayable in equal monthly payments of \$73	7,824	7,979
9 3/4% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69	6,908	7,048
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70	6,879	7,023
	<u>151,399</u>	<u>153,083</u>
Less: Current portion	<u>21,153</u>	<u>1,105</u>
	<u>130,246</u>	<u>151,978</u>
Less: Sinking fund investments (a)		
Available-for-sale	29,495	26,160
Held-to-maturity	15,068	14,477
Held-for-trading	1,361	1,044
	<u>45,924</u>	<u>41,681</u>
Long-term debt net of sinking fund investments	<u>\$ 84,322</u>	<u>\$ 110,297</u>

a) \$20,000 from sinking fund investments will be used to retire the 11% debenture due March 9, 2009.

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal repayments	\$21,153	\$ 1,202	\$ 1,255	\$16,311	\$21,379
Sinking fund investment contributions	\$ 1,810	\$ 1,810	\$ 1,810	\$ 1,810	\$ 1,250

13. 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 \$20,193 (2007 - \$20,545). 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 \$21,624 (2007 - \$22,029).

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

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Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$1,431 (2007 - \$1,484). 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.

The current portion of the net lease obligation is (\$15) (2007 - \$23) and is recorded in accounts receivable. Fair value information for the net lease obligation is included in Note 23.

The net lease obligation (receipts) / payments over the next five years are:

2009	2010	2011	2012	2013
(\$15)	(\$57)	(\$104)	(\$155)	(\$211)

14. 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.

	2008	2007
Bankers acceptances and bank overdraft	\$ 21,420	\$ 4,800
Shareholder's advance	11,500	8,000
	\$ 32,920	\$ 12,800

The short-term debt outstanding at year-end had a weighted average 69 day term (2007 – 68 day term) and a 4.00% (2007 – 4.40%) weighted average annual interest rate.

15. Dividends payable

Pursuant to Section 29 of the *Northwest Territories Power Corporation Act*, the GNWT directed NTPC to declare a dividend of \$3,500 (2007 - \$3,500).

16. Asset retirement obligations

	2008	2007
Balance, beginning of the year	\$ 4,325	\$ 4,215
Additions	1,106	-
Liabilities settled	(68)	-
Accretion expense	98	110
Balance, end of the year	\$ 5,461	\$ 4,325

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

- Total undiscounted amount of the discounted cash flows - \$7,100
- Expected timing of payments of the cash flows – majority of expenditures expected to occur after 2030
- Discount rate is the credit-adjusted risk free rate of 5.75%

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17. Deferred government contributions - Capital funding

In 2008 the GNWT signed a contribution agreement with NTEC(03) to provide \$2,000 (2007 - \$1,045) financial assistance for the Taltson hydro expansion project. The accumulated \$3,775 (2007 - \$1,775) in contribution funding is considered repayable to the GNWT should the Taltson Hydro Expansion Project proceed or if NTEC(03) acquired funding for these costs from other sources.

18. Environmental liabilities

NT Hydro estimates that it would cost approximately \$13,000 to clean-up the environmentally contaminated soil at its 27 sites in the NWT. NT Hydro has recognized a provision for environmental liabilities of \$3,240 (2007 - \$3,240) for the portion of the remediation costs which it believes it is responsible for based on its analysis of the amount of soil impacted before and after the acquisition of the sites by NT Hydro on May 5, 1988 from the Northern Canada Power Commission.

19. Employee future benefits

NT Hydro and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits upon retirement based on years of service and the five best consecutive years of earnings. The benefits are fully indexed to the increase at the Consumer Price Index. NT Hydro's contributions cover all of the costs associated with the pension obligation.

a) Contributions to the PSPP were as follows:

	<u>2008</u>	<u>2007</u>
Employer's contributions	\$ 1,880	\$ 1,875
Employees' contributions	823	839
	<u>\$ 2,703</u>	<u>\$ 2,714</u>

NT Hydro provides severance and ultimate removal benefits to its employees based on employee start dates, years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

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

	<u>2008</u>	<u>2007</u>
Accrued benefit obligation, beginning of the year	\$ 2,437	\$ 2,536
Net increase / (decrease) in obligation for the year	269	(7)
Benefits paid during the year	(356)	(92)
Accrued benefit obligation, end of the year	<u>\$ 2,350</u>	<u>\$ 2,437</u>

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20. Share capital

	Number of shares	2008	Number of shares	2007
Preferred shares				
Authorized:				
One preferred share, non-cumulative, without par value				
Issued and outstanding:				
Issued June 30, 2007 on incorporation (one dollar) (Note 1)	1	-	-	-
Common shares				
Authorized:				
Unlimited number of voting common shares without par value (prior to restructuring June 30, 2007)				
One common share without par value				
Issued and outstanding:				
Issued: common shares (prior to restructuring)	-	-	431,288	\$ 43,129
Issued: common share June 30, 2007 on incorporation (Note 1)	1	\$ 43,129	-	-
	1	\$ 43,129	431,288	\$ 43,129

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

21. Commitments and contingencies

Capital projects

The estimated cost to complete capital projects in progress, as at March 31, 2008, was \$6,532 (2007 - \$3,404).

Natural gas purchase commitment

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

Fuel management services agreement

NTPC has a fuel management services agreement with the Petroleum Products Division (PPD) of the GNWT. This agreement transfers the fuel inventory and maintenance of fuel tank farms of 20 communities served by NTPC to PPD, consistent with NTPC's operational requirements. As of March 31, 2008, all 20 communities had been transferred under this agreement. The price of fuel changes with the change in market price, the cost of freight and the amount of fuel purchased by NTPC from PPD in a given year.

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Litigation

NT Hydro has been named as a defendant in four lawsuits. One action relates to a wrongful dismissal case, which was raised in 1997/98. The second action names NT Hydro as a co-defendant in a lawsuit involving allegations of negligence and breaches of duty arising out of a snowmobile accident. The lawsuit was raised in November 2004. In the third action, NT Hydro is named as a co-defendant in a lawsuit involving allegations of negligence and breaches of duty arising out of a quad accident. The total liquidated amount of these claims ranges from \$110 to \$459, exclusive of costs and interest. The fourth action was raised in 1999 and names NT Hydro as a co-defendant with the GNWT and the federal government in a claim for \$45,000 related to the construction of the hydro system on the Taltson River in 1965. It is management's estimate that no significant loss to NT Hydro will result from any of these four claims. In the event that any of these claims are not settled in favour of NT Hydro, NT Hydro has insurance which may cover all or a portion of the settlement cost.

Dyke breach

On June 15, 2006, a breach occurred at a dyke in the Snare Forks hydro system when water over topped the dyke. The breach was closed and remediation work on the channel created has occurred with input from the Department of Fisheries and Oceans. The breach deposited silt into a lake and has impacted fish habitat. NT Hydro expects to be charged with one count under the *Fisheries Act* of depositing a deleterious substance in water frequented by fish. Penalties for this type of offence can range from nil to \$ 1,000 per occurrence. It is expected this matter will be resolved in court during 2008/09.

22. 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 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 the financial statements are as follows:

	<u>2008</u>	<u>2007</u>
Sale of power and other	\$ 26,426	\$ 21,303
Purchase of fuel from GNWT	16,140	8,563
Other purchases and payments	2,541	1,146
Fuel tax paid to GNWT	567	355
Balances at year end:		
Accounts receivable	2,212	2,306
Accounts payable and accrued liabilities	8,465	3,959
Shareholder's advance (included in short-term debt)	11,500	8,000
Dividend payable to GNWT	3,500	3,500
Loan repayable to GNWT from NTEC(03)	150	1,000

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23. Financial instruments

Financial instrument fair value

a) Fair value determination

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

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

As at March 31, 2008, the fair value and carrying value of NT Hydro's financial instruments are:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$151,399	\$184,921	\$153,083	\$184,643
Net lease obligation	1,431	3,232	1,484	5,355
Cash and short term investments	1,361	1,361	1,044	1,044
Corporate bonds	11,142	11,142	10,683	10,660
Federal Government guaranteed	10,685	10,685	9,595	9,490
Provincial Government guaranteed	3,099	3,099	2,304	2,298
Municipal Government guaranteed	2,999	2,999	3,053	3,043
Canadian equities	1,570	1,570	525	541
Immunized investments	15,068	15,231	14,477	14,489
Fixed-floating commodity swap	-	-	-	465

b) Impairment

NT Hydro assesses the decline in the value of the individual investments for impairment to determine whether the decline is other-than-temporary. NT Hydro 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, 2008, NT Hydro does not consider any financial instrument to be impaired. NT Hydro has \$789 in accounts receivable aged greater than 90 days.

c) Currency risk

NT Hydro is exposed to currency risk by purchasing supplies and capital assets in U.S. dollars. NT Hydro 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. NT Hydro is exposed to currency risk by allowing sinking fund investments in U.S. or foreign securities, however no such investments were purchased during the year. NT Hydro does not hedge this exposure as it has rarely invested in foreign securities.

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d) Credit risk

NT Hydro is exposed to credit risk in its cash, short term investments, accounts receivable, sinking fund cash, equity and fixed income investments, loan receivable for the Snare Cascades Hydro project and to the credit risk of its derivative financial instrument counterparties that do not meet their obligations. 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. As at March 31, 2008, excluding Federal Fixed Income securities, all individual sinking fund investments were less than 3% of total sinking fund assets.

NT Hydro 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 NT Hydro's large customer base. Thirty-four percent of NT Hydro's sales are to other utilities. Furthermore, an additional 20% of sales are to the GNWT, through the Territorial Power Subsidy Program and Housing Support Program.

NT Hydro maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. No interest is charged for customers who are current; thereafter interest is at the rate disclosed in the terms and conditions of service.

NT Hydro minimizes the credit risk of its derivative financial instruments by dealing only with reputable financial institutions. The credit risk for the loan receivable for Snare Cascades was minimized by an assignment of lease payments and the security of the hydro facility itself.

As at March 31, 2008, all of the credit exposure was within Canada.

The table below illustrates the maximum credit exposure to NT Hydro if all counterparties defaulted on March 31, 2008.

Accounts receivable	\$ 22,105
Sinking fund assets	20,171
DPC loan receivable	20,193

e) Liquidity risk

Liquidity risk is managed by the use of sinking fund and amortization provisions on nine out of the eleven debentures. It is a prudent policy for any corporation to arrange its financing in such a manner such that the total amount of debt maturing in any given year does not exceed its ability to borrow in any given year. A policy designed along these lines gives a 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.

Utilities are capital intensive companies and as such all utilities have a permanent amount of debt to finance their investments. The majority of utilities finance with debt requiring bullet repayments so as to maximize their cash flow and recognize that some of their debt will always exist.

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The following table shows the maturities of the NT Hydro's short and long-term debt as at March 31, 2008.

<u>Timeframe</u>	<u>Dollar Value</u>
Less than 1 year	\$ 54,060
Greater than 1 year and not later than 6 years	41,677
Greater than 6 years and not later than 20 years	60,444
Greater than 20 years	28,138

f) Interest rate risk

NT Hydro is exposed to interest rate risk in that changes in market interest rates will cause fluctuations in the fair value of its short-term investments, short term debt, sinking fund fixed income investments and long-term debt.

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

All of NT Hydro'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.

The table below represents the remaining term to maturity of NT Hydro's interest sensitive investments.

<u>Fair value</u>	<u>Remaining term to maturity</u>				
	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>5 to 20 Years</u>	<u>Over 20 Years</u>	<u>Total 2008</u>
Sinking fund assets	\$ 1,834	\$ 9,545	\$ 12,677	\$ 5,191	\$ 29,247

Sensitivity analysis

NT Hydro uses duration as a measure of interest rate sensitivity. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income instrument to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

	<u>Fair value</u>	<u>Duration</u>	<u>Fair value with a 1% yield increase</u>	<u>Fair value with a 1% yield decrease</u>
Available-for-sale sinking fund fixed income	\$ 27,925	6.5	\$ 26,109	\$ 29,740
Long-term debt	184,921	7.48	171,089	198,753

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24. Segment information

NT Hydro has two reportable segments: Regulated operations and Non-regulated operations. Regulated operations include the generation, supply and distribution of energy regulated under the *Public Utilities Act*. Management assesses performance of the regulated operations based on the ability to meet targets set out by the Board of Directors. These targets cover the following areas: net income, customer service, safety and environmental, financial integrity, employee satisfaction, reliability and operational efficiency.

Non-regulated operations include operations from Northwest Territories Energy Corporation Ltd., Northwest Territories Energy Corporation (03) Ltd., Sahdae Energy Ltd. and 5383 NWT Limited. Management assesses performance of the non-regulated operations based on each company's ability to achieve its objectives.

	Regulated operations	Non- regulated operations	Total
Year ended March 31, 2008			
Revenues from external sources	\$ 86,379	\$ 396	\$ 86,775
Operating expenses including amortization	66,532	1,057	67,589
Earnings (loss) from operations	19,847	(661)	19,186
Interest income	162	-	162
Interest expense	10,894	126	11,020
Net income (loss)	9,115	(787)	8,328
Capital expenditures	16,607	1,979	18,586
As at March 31, 2008			
Total assets	324,371	29,415	353,786
	Regulated operations	Non- regulated operations	Total
Year ended March 31, 2007			
Revenues from external sources	\$ 80,569	\$ 119	\$ 80,688
Operating expenses including amortization	62,856	913	63,769
Earnings (loss) from operations	17,713	(794)	16,919
Interest income	236	-	236
Interest expense	10,590	120	10,710
Net income (loss)	7,359	(914)	6,445
Capital expenditures	15,051	1,504	16,555
As at March 31, 2007			
Total assets	294,450	28,000	322,450

25. Subsequent events

Phase I of NTPC's 2006/08 GRA is complete. On May 12, 2008 the PUB finalized the revenue shortfalls and interest for both 2006/07 and 2007/08 in Decision 16-2008. The effect of this decision has been reflected in these consolidated financial statements. Phase 2 of NTPC's 2006/08 GRA was filed August 15, 2008. PUB Decision 27-2008 on the Phase 2 Application was received October 31, 2008. The PUB decision approved final rates from the 2006/08 GRA, approved adjustments to rate riders to collect the shortfall from the 2006/08 GRA, approved rate riders to collect balances in the stabilization funds and directed NTPC to capitalize the fuel cost associated with the Bluefish capital

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projects. These adjustments will be made in the 2008/09 fiscal year. On August 1, 2008 NTPC issued \$25 Million in long term debt for 20 years at a rate of 5.443%.

26. Comparative figures

Certain 2007 figures have been reclassified to conform to the financial statement presentation adopted for 2008.

The Northwest Territories Hydro Corporation was incorporated on June 30, 2007 and is governed by the *Northwest Territories Hydro Act*.

Section 5(1) of the *Northwest Territories Hydro Corporation Act* defines the objects of the Corporation as follows:

The objects of the Corporation within the territories are:

- (a) to generate, transform, transmit, distribute, deliver, sell and supply electricity on a safe, economic, efficient and reliable basis;
- (b) to undertake programs to conserve electricity
- (c) to ensure continuous supply of electricity adequate for the needs and future development of the Territories; and
- (d) to undertake any other activity authorized by the Executive Council.

5 (2) Twin Gorges Hydroelectric Generating Facility

In addition to the objects referred to in subsection (1), it is an object of the Corporation to facilitate the expansion of, addition to or replacement of the Twin Gorges Hydroelectric Generating Facility on the Taltson River, and to participate in the supply and sale of electricity generated by that Facility.

5 (3) Subsidiaries

The Corporation may, with the approval of the Executive Council, establish one or more subsidiaries of the Corporation to carry out its objects.

At the time of incorporation the Northwest Territories Power Corporation (NTPC), the NWT Energy Corporation (03) Ltd. (NTEC(03)Ltd.), and Sahdae Energy Ltd. (SEL), became subsidiaries of the Northwest Territories Hydro Corporation.

The Northwest Territories Power Corporation is a regulated utility and is governed by the *Northwest Territories Power Corporation Act*. The NWT Energy Corporation (03) Ltd. and Sahdae Energy Ltd. are unregulated utilities and subject to the *NWT Business Corporations Act*.

Pursuant to Section 8 of the Northwest Territories Hydro Corporation Act the Board of Directors of the Northwest Territories Power Corporation (NTPC) are the Board of Directors of the Northwest Territories Hydro Corporation (NT Hydro). To govern the relationship between the NT Hydro and NTPC, the Board has adopted "Guidelines for Regulated versus Non- regulated Business Activities" as well as a policy for "Affiliate Transactions and Code of Conduct". These policy instruments safeguard the interests of each Corporation and ensure decisions are made based on the highest ethical and professional standards and minimize any potential conflict of interest.

Since Incorporation, the Board of Directors has also approved bylaws for the Corporation that are consistent with and complimentary to the by-laws of the NTPC. The Board has also adopted a consistent "Ethics and Conflict of Interest Code".

The Board of Directors of the Northwest Territories Hydro Corporation is committed to the highest standard of corporate governance and as the Corporation evolves, the Board will ensure mandates; policies and procedures meet these standards.

NT HYDRO Board of Directors

The Northwest Territories Hydro Corporation was incorporated on June 30, 2007. Pursuant to Section 8 of the *Northwest Territories Hydro Corporation Act*, the Board of Directors of the Northwest Territories Power Corporation are the Board of Directors of the Northwest Territories Hydro Corporation, therefore the Board of Directors of the Northwest Territories Power Corporation as at June 30, 2007 became the Board of Directors of the Northwest Territories Hydro Corporation.

Below are the names of the Board of Directors of the Northwest Territories Hydro Corporation for the fiscal year ending March 31, 2008, along with their positions with the Corporation and Board Meeting attendance for the three meetings held during this period.

Name	Appointment	Current Term Expires	Office	Principal Occupation	Attendance %
Lew Voytilla	Jun 30, 2007	Nov 30, 2008	Director, Chairman of the Board	President, 5750 N.W.T Ltd.	100%
Peter Allen	Jun 30, 2007	Nov 21, 2009	Director, Vice Chairman	President, The Nexus Group Ltd.	100%
Louis Sebert	Jun 30, 2007	Nov 21, 2009	Director	Lawyer – Sole Practitioner	100%
Marion LaVigne	Jun 30, 2007	Nov 21, 2009	Director	President & Principal, Outcrop Ltd.	67%
Greg Cayen	Jun 30, 2007	Jun 14, 2008	Director	CFO, Gwich'in Tribal Council & CFO, Gwich'in Development Corporation	67%
Daniel McNeely	Jun 30, 2007	Aug. 14, 2009	Director	President & CEO, Sahtu Contractors Ltd.	67%
Jim Antoine	Jun 30, 2007	Nov. 22, 2008	Director	Independent Consultant	67%
James Wah-Shee	Jun 30, 2007	Feb. 28, 2010	Director	Independent Consultant	100%

NT HYDRO BOARD OF DIRECTORS
Members and Advisors
June 30, 2007 (Incorporation) to March 31, 2008

Lew Voytilla, Chairman	Peter Allen, Vice Chairman
Louis Sebert, Director	Marion LaVigne, Director
Greg Cayen, Director	Leon Courneya, Director
Daniel McNeely, Director	James Wah-Shee, Director

OFFICERS of the CORPORATION

Lew Voytilla, <i>Chairman</i>	Leon Courneya, FCA <i>President & Chief Executive Officer</i>
Judith Goucher, MA <i>Director, Finance & CFO</i>	Cheryl Tordoff <i>Corporate Secretary</i>