ANNUAL REPORT 2005|2006

automation

technology

modernization

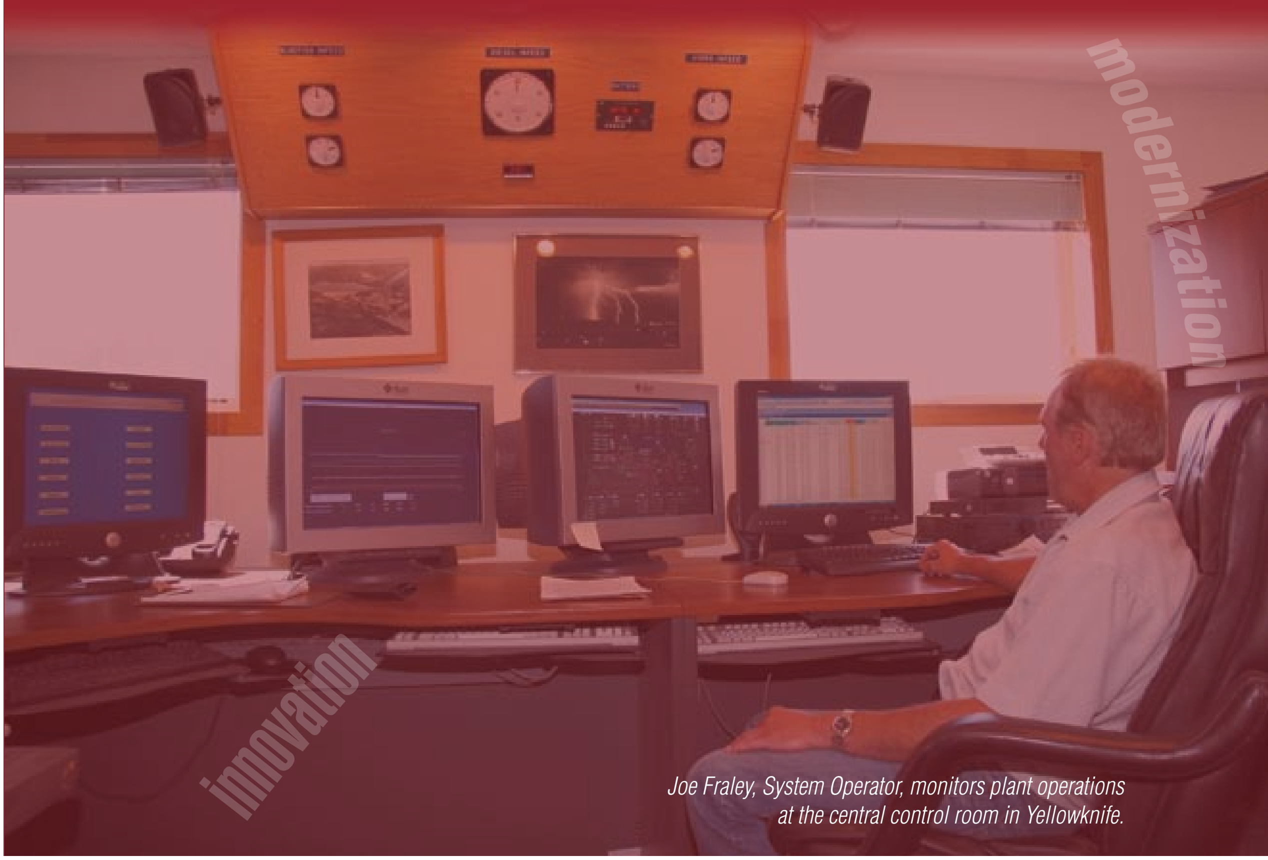
innovation

NORTHWEST TERRITORIES
POWER
CORPORATION

CONTENTS

automation technology

As the Northwest Territories grows, so does its need for safe, environmentally sound, reliable energy. In order to do this cost-effectively and to meet the challenges of generating and delivering power to small communities spread over a huge territory, with little infrastructure connecting them, NTPC uses automation, technology, innovation and modernization.



Joe Fraley, System Operator, monitors plant operations at the central control room in Yellowknife.

The Honourable Anthony W. J. Whitford, Commissioner
Government of the Northwest Territories

Dear Sir,

I have the honour of presenting the Annual Report for the Northwest Territories Power Corporation, covering the period of April 1, 2005 to March 31, 2006.

Respectfully submitted,

Honourable David Krutko
Minister Responsible for the Northwest Territories Power Corporation

Mandate

It is the responsibility of the Corporation to generate, transform, transmit, distribute, deliver, sell and supply energy throughout the Northwest Territories on a safe, economic, efficient and reliable basis.

Vision

- We will provide environmentally sound, safe, reliable, cost-effective energy and related services in the territories, resulting in recognition as the best managed utility in Canada.
- We will be profitable and financially strong, following sound business practices and providing an economic return to our Shareholder.
- We will be a great place to work – innovative, proactive and driven to meet the expectations of our Shareholder, customers and communities.
- We will be a major contributor, working with partners, to the development and operation of new energy resources in ways that meet the North's unique environmental needs.

Mission

Position the core business for future sustained, profitable growth through:

- motivating and securing alignment and support of all employees to the Corporation's future strategy;
- implementing 1 or 2 significant growth opportunities for the core business, adequately resourced;
- improving organizational efficiency and effectiveness;
- gaining the support of key stakeholders, the Board, Shareholder, Aboriginal peoples, and our communities, for growth and change initiatives;
- strengthening our customer base – offer solutions to rate structure and payment issues, quality customer service.

Values

We will endeavour to:

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

OUR VISION 2010


Armil's Photography

Message from the Chairman

I want to extend my appreciation and thanks to all staff and the management team for their commitment to a successful corporation.

Despite the challenges in 2005/06, whether it has been personally and professionally, I want to say that I am very pleased with the results of your commitment and professional contributions to NTPC and its subsidiaries.

We all need to realize how blessed we are in spite of our company's challenges. We have an NWT owned business that has a bright future. We have employees who have the skills and talents to manage the Corporation and deliver services. We have a Shareholder who is looking to the future and promoting opportunities that will see the Corporation grow to be a world class business. However the success of that future rests on all involved in the Corporation and its Subsidiaries. Our business structure will have to evolve and possibly change in order for us to remain competitive as a corporation within a global market environment. I am confident that we can and will meet the challenges that we are confronted with and must respond to.

Our opportunities are enormous. In a time that is marked by increased resource development, expanding energy demands and the need for environmental friendly energy sources, NTPC, NTEC (03) Ltd. and Sahdae Energy Ltd. are positioned to be key players in delivering on these opportunities.

As a Board, we have and must continue to consider the interests of the Shareholder, our employees, our customers and the Corporation and we see a need to prepare ourselves to lead the charge into these new opportunities.

With growth and development, increases the demand for electricity. Our communities need to be assured of reliable and cost competitive energy which will assist them in participating and benefitting from resource development at all stages.

As such we must continue to impress upon our customers and clients that this should be the company of their choice for employment and service. To be such a company we will need to develop, recruit and retain a highly skilled, motivated and professional workforce. Our people remain our greatest opportunity, challenge and asset.

The Board has a clear vision for the future and we understand that changes are necessary to reach these goals and achieve our objectives.

Our vision is to ensure a viable, productive and fiscally responsible company for our Shareholders, our customers and our employees. Our safe future is about building a national and international business, while protecting, improving and maintaining the services to our customers and communities in the NWT.

Our dream is about "Our" future. Our Vision is about making this dream a reality. This dream is about leaving a legacy for our children and having the NWT become a key energy provider. We realize this may be a challenging objective but so has been every other major initiative in the NWT and Canada. All these successes started with a dream focused by a vision. We intend to work through this one step, one decision and one success at a time. With the support of our Shareholder, building partnerships and by persuading our customers of the value of our direction and decisions, we will see our dreams become real.

I thank you all for your continued support and ask that "you" be part of our dream, our vision and our future.

Richard Nerysoo
Chairman

Armit's Photography

Message from the President & CEO

This past year, management and staff of the Northwest Territories Power Corporation worked hard to provide energy and related services to the growing NWT population in ways that are in line with our vision for the future.

In 2004, NTPC developed its Vision 2010, which focuses on providing environmentally sound, safe, reliable, cost-effective energy and related services in the territories, meeting the expectations of our Shareholder, customers, and communities, and working with partners to develop new energy resources, while remaining profitable and financially strong.

Here are some successes we've achieved this year toward Vision 2010:

- **Safe:** This year we achieved another 12 months of safe operations, with no lost time due to accidents.
- **Environmentally sound:** We kept our greenhouse gas emissions significantly below 1990 levels, and continued assessment and remediation of our sites to continue to minimize our environmental impact.
- **Cost effective and profitable:** We surpassed our goals for net income and paid a $3.5 million dividend to our Shareholder, the Government of the Northwest Territories (GNWT). This dividend is used by the GNWT for the Territorial Power Support Program (TPSP), which helps reduce the cost of power in the north's smallest and most remote communities. This year's dividend brings the total dividends paid, to $72 million since the GNWT purchased the Corporation in 1988/89.
- **Reliable:** Our systems were available to customers 99.97% of the time despite being one of the most difficult operating areas in Canada.
- **New energy sources:** We continued work with our partners on planning a second hydro facility at Taltson to provide power to the diamond mines, and anticipate applying for approval of the project in the coming year.
- **Customer needs:** This year we worked to help our customers offset rising fuel prices by providing energy assessments and information to help them reduce their energy consumption.

While we are proud of what we have accomplished in the past year, we are looking ahead to how we can build on these accomplishments in the future.

- We anticipate our new accounting and work management system will be fully operational in 2006/2007.
- We will complete the realignment of the Corporation to a hydro region and a thermal region. With the closure of the gold mines, our operations have changed, and this realignment will allow our staff greater focus on their areas of expertise.
- Working with the GNWT's Petroleum Products Division (PPD), we have begun the process of moving to single tank farms in communities which will allow for a more efficient operation. The first step taken in 2005/06 has PPD maintaining our tank farms.

As the territory grows and prospers, NTPC's management and staff continue to contribute to the Corporation's successes. These successes directly result from the dedication, hard work, and professionalism of our staff, and I extend my thanks for their efforts. I also thank Hay River's Gladys Norwegian for her service on the Board of Directors, which ended this year.

The Corporation will continue to work towards our goals, facing challenges head on as we work to power economic and everyday life in a strong, prosperous NWT.

Leon Courneya, FCA
President and CEO

INNOVATION and AUTOMATION

The Northwest Territories Power Corporation is constantly looking for new and innovative ways to improve its operations and service. And leading edge technology offers many opportunities.

This year, the Corporation continued to look for and apply new technology and innovation. The following improvements were made possible by a dedicated and talented group of employees in Engineering, Operations, Information Technology, Finance and Administration, who work together to provide customers, regulators, and Shareholders with an effective and efficient Corporation.

Computerized Engine Control

NTPC uses Programmable Logic Controllers (PLCs), which help ensure the power plants run at maximum efficiency. The PLCs match the size of the engine to customer usage. So, when less power is needed, smaller, more efficient engines are used. The PLCs also monitor the engines, and can detect some problems before they happen. Because the best-suited engine for the current demand is operating at any given time, costs are lower, there is less wear and tear on engines, and less greenhouse gas produced. The result? Reliable, efficient, and environmentally effective operations without the need for around the clock staffing. And this keeps the cost of producing power lower, and power rates affordable.

System Control Room

NTPC uses a sophisticated computer system to operate six different hydro power generation plants.

The control room at the Jackfish generating station in Yellowknife used to monitor and control only the Snare and Taltson hydro systems. This year it was expanded to monitor the newly acquired Bluefish Hydro facility. The computer system has improved operating efficiency and helped keep labour and fuel costs under control in its many years of operation.

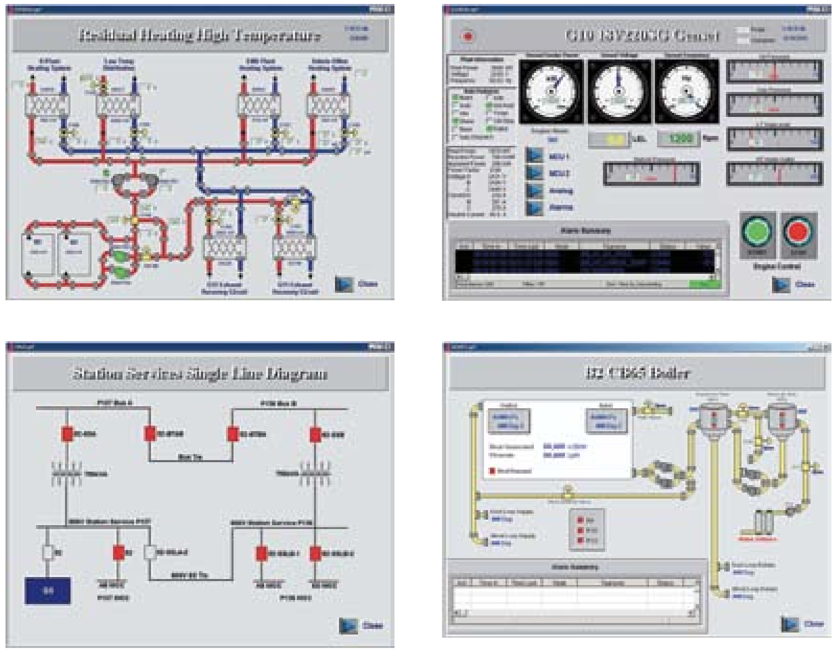
Inuvik Gas Engines

Many communities in the NWT rely on power generated using diesel-powered engines. Diesel is effective, but costly. In recent years, NTPC has started using natural gas to generate power in Inuvik. This is less costly, more environmentally friendly, and uses a locally-available resource (rather than having to ship in diesel fuel). This past year, a third gas engine was added in Inuvik to respond to increasing power use in the community, to make more efficient use of energy, and to lower fuel costs. As part of this upgrade, new and updated computerized monitoring and control software was installed to make the system even more efficient, and to be able to collect additional information. With these improvements, NTPC can now monitor and control the Inuvik power plant remotely, from Yellowknife's system control room, eliminating the need for evening and weekend shift work in Inuvik.

Fibre Optics

You might not be able to get cell phone coverage or even radio reception on most of the Mackenzie Highway, but NTPC now has digital high speed access at its remote, off-road Snare Hydro facility.

Fibre optic communication cables were installed this year at the Snare Hydro facility. Snare is made up of four independent generation stations that are spread out over a 40 kilometre stretch of the Snare River. The installation of fibre optics increases the ability to obtain voice, data and video communication from this remote, off-road facility. This leads to improved operations, safety and efficiency. With this installation, all the Corporation's hydro generation sites are now connected to each other and to Yellowknife and Hay River through a high speed digital network.



Real time displays enable effective remote monitoring of our facilities throughout the Northwest Territories.

Electronic Power Meters

Fort Smith has joined the growing list of communities equipped with automated power meters. These CSA-approved meters read power consumption automatically, and send the information over the power lines to the power plant. This results in more accurate meter readings, eliminates many re-readings, and reduces the time and cost associated with monthly visits to customers to manually read their meters. The program will continue to expand. Plans are in place to install electronic meters for Fort Simpson customers in the coming year.

Document Management

Technology is used by the Corporation not just to improve how it generates power, but also to improve its day-to-day office work. NTPC uses an integrated Document Management System to efficiently track and store electronic and paper documents. The system categorizes all documents, allowing sophisticated searches and document recovery. At the same time, it ensures a high level of security and privacy that complies with federal and territorial privacy legislation.

Satellite Communication Network

NTPC began using satellite communication in 1999 to improve inter-office communication and reduce costs. This innovative use of technology in a remote operating environment achieved national recognition, earning NTPC the prestigious *CIPA – Next Generation Award* in 2000. This satellite network is now being expanded to encompass communities in which NTPC generates diesel power and will allow for future innovative use of technology throughout the Corporation. Through NTPC's partnership with SSI Micro, another northern company, this satellite network will bring affordable, high speed broadband internet access to residents of smaller isolated NWT communities.

Expanding the satellite communications network to remote communities will also allow NTPC to monitor all of its remote diesel power from Yellowknife's system control room. This will provide a complete real-time picture of power generation facilities throughout the territory. This is anticipated to improve safety, efficiency and communication.

Risk Management

The Corporation manages risk through technology. Many of the applications outlined above help us to improve our ability to monitor, communicate and mitigate risks with less effort and improved timeliness.

Considering the large geographic area we serve and the isolation of many of our operations, technology helps us to stay connected. Through the use of technology, the Corporation will continue to adapt its processes to improve efficiency, reliability, loss control, safety, communication and customer service all of which support us in achieving our Vision 2010.

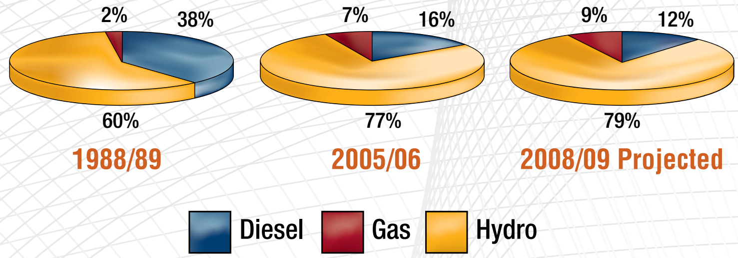
The Corporation's Award Winning satellite network connects remote generating facilities throughout the Northwest Territories to the Corporate office in Hay River and the System Control Centre in Yellowknife.

Highlights

Generation by Type

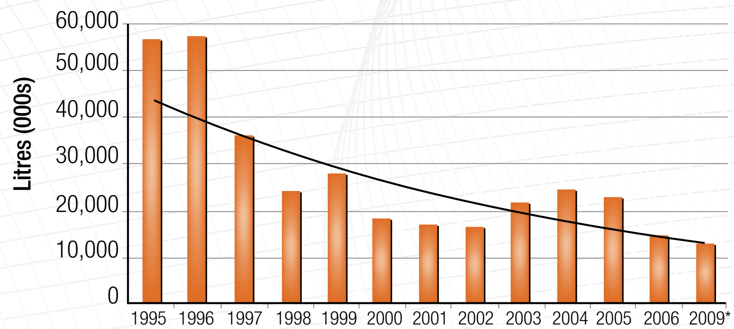
(Based on Average Hydro Production)

The Northwest Territories Power Corporation continues to work to reduce its dependence on diesel generation by increasing hydro generation at the Taltson, Snare Cascades and Bluefish generating facilities. The conversion of Inuvik to natural gas generation (Microturbines) has further reduced our need for diesel generation. The remaining diesel operation efficiency has been increased 10% through the installation of newer engines, automation and employee training.



Diesel Consumption 1995 to 2009

The Corporation has reduced its diesel consumption by 75% since 1995 from a high of 57 million litres per year to an anticipated 12.8 million litres per year by 2009. This reduction in diesel consumption benefits customers through lower costs, while reducing the impact and associated risks on the environment. The Corporation is committed to continuing to decrease its reliance on diesel generation.



**2009 Projected diesel consumption*

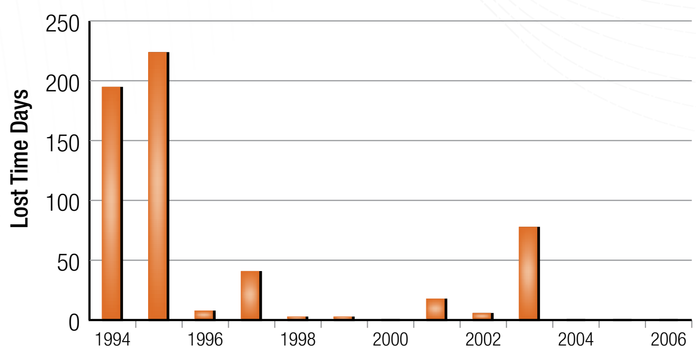
NTPC Safety Record For Lost Time Days

The Northwest Territories Power Corporation operates an electric utility in one of the harshest operating environments in Canada. The Corporation renewed its commitment to employee safety in 1996 when it adopted an objective of *Zero Lost Time Accidents.*

We increased our focus on employee safety and through training and heightened awareness of safety; we have changed our corporate culture. As a result, we have been successful in significantly lowering our lost time accidents.

Year	Lost Time Days
1994	194
1995	223
1996	7
1997	40
1998	2
1999	2

Year	Lost Time Days
2000	0
2001	17
2002	5
2003	77
2004	0
2005	0
2006	0



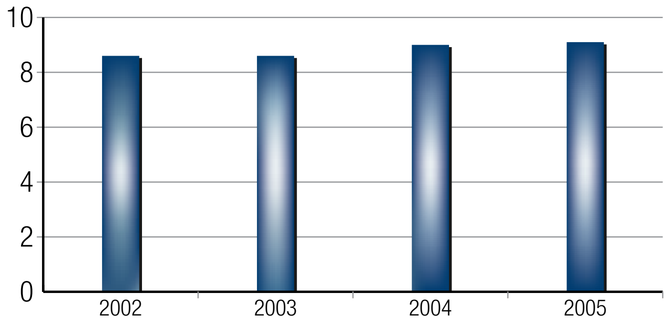
The Northwest Territories Power Corporation educates grade 5 students on how to be "safe and smart" around electricity.

Highlights

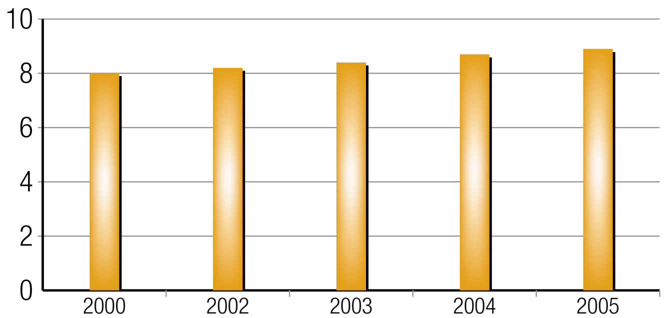
Customer Satisfaction - Survey Report

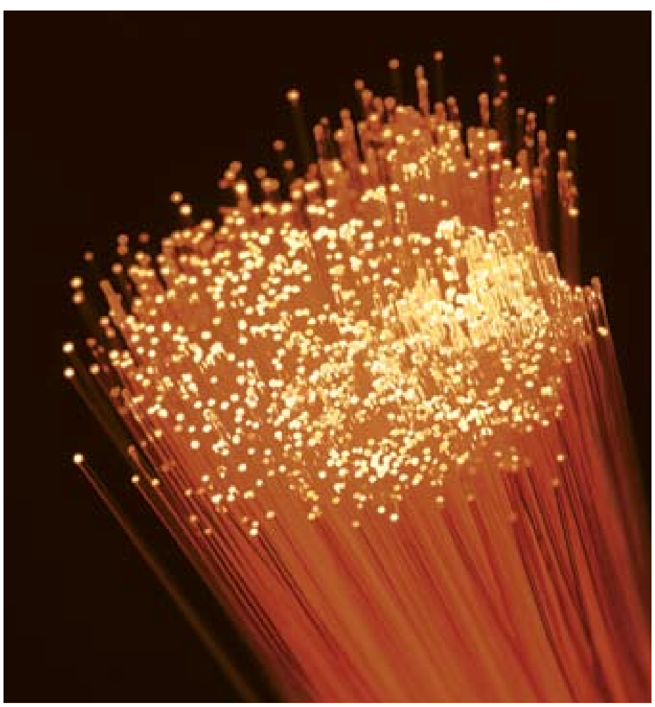
The following charts represent the percentage of respondents (converted to a scale of 0 – 10) who rated the Corporation's overall service as satisfactory, good or very good.

Commercial Customers



Residential Customers





The Corporation now uses fibre optics to provide high speed voice/data/video communications at all of its hydro generation facilities

Electronic meters are read by computer, eliminating the need for a monthly visit to every home.

Directive

Date: March 16, 2006

SUBJECT: NORTHWEST TERRITORIES POWER CORPORATION DIVIDEND

DECISION: The Executive Council directs that:

1) pursuant to section 29 of the *Northwest Territories Power Corporation Act,* the Northwest Territories Power Corporation declare a dividend in the amount of $3,500,000 for the 2005-2006 operating year;

2) further to paragraph (1) above, the Northwest Territories Power Corporation pay the dividend to the Government of the Northwest Territories within 120 days following the declaration of the dividend; and

3) the Minister Responsible for the Northwest Territories Power Corporation communicate the above direction to the Chairman of the Northwest Territories Power Corporation.

It is understood that the Honourable David Krutko, Minister Responsible for the Northwest Territories Power Corporation, will initiate the required action to implement this decision.

Consolidated Financial Summary
For the Years Ended March 31
($000's)
(Unaudited)

	2006	2005	2004	2003	2002
Operating revenue	$ 67,082	$ 68,298	$ 68,355	$ 66,709	$ 64,310
Fuel rider revenues	3,837	155	-	-	-
Operating expenses	55,076	52,255	52,180	49,457	49,170
Fuel and lubricants expense	12,670	14,860	15,550	15,209	15,358
Fuel expense offset to rider revenues	3,837	155	-	-	-
Interest expense (net of AFUDC)	8,986	9,846	9,596	10,060	10,544
Earnings from operations	15,843	15,898	16,175	17,252	15,140
Net earnings	7,192	6,429	7,179	7,725	6,882
Dividend	3,500	3,300	3,500	4,000	4,000
Expenditures on property, plant and equipment	18,729	25,911	11,124	8,650	5,334
Gross property, plant and equipment	304,694	294,133	272,681	265,036	258,786
Sales (MWh)	312,187	337,113	315,870	314,332	307,335
Generation (MWh) (1)	380,144	372,387	391,871	350,086	341,101
Litres of fuel consumed (000's)	14,862	21,490	24,740	16,513	17,242
Total number of customers	8,263	8,182	8,064	7,954	7,849
Return on net assets employed (2) (Net income/ (Total assets – RFRSR)	2.62%	2.51%	2.98%	3.41%	3.11%
Average unit energy cost (3) (Operating cents/kWh generated)	14.49	14.03	13.32	14.13	14.42

Notes:

(1) Generation for 2005 and 2004 has been restated to include generation covered under purchase power credits provided to Miramar Con Mine.

(2) RFRSR – Reserve for Future Removal and Site Restoration. See Note 11 of the Financial Statements.

(3) Operating costs excludes fuel expense offset to rider revenue.

Long Service Employees

Vision

"We will be a great place to work – innovative, proactive, and driven to meet expectations of our Shareholder, customers, and communities."

The Northwest Territories Power Corporation takes great pleasure in presenting our Long Service Awards each year to individual employees who have worked a minimum of five years with our organization. NTPC aims to provide both a safe and positive work place environment for our employees, to foster loyal and productive staff.

NTPC is especially proud of its low staff turnover each year, with a five year average of 5.9%. We believe this low turnover is a testament to the efforts of all our employees in achieving a superior workplace environment.

Employee	Position Title	Plant	Years of Service
Croizier, Reginald	Plant Operator	Yellowknife	35 Years
Staszuk, Joe	Maintenance Specialist	Hay River	30 Years
Crawford, Allan	Manager, Operations	Fort Smith	25 Years
Grabke, Daniel	Director, Business Development	Corp Office	25 Years
Lapak, Romy	Accounts Payable Clerk/Buyer	Hay River	25 Years
VanBridger, Mike	Manager, Community Generation Support	Inuvik	25 Years
Gill, Doreen	Customer Service Representative	Yellowknife	20 Years
Rafferty, Terry	Manager, Generation	Inuvik	20 Years
Donahue, Cheryle	Director, Human Resources	Hay River	15 Years
Betsidea, Tommy	Plant Superintendent I	Deline	10 Years
Bradbury, Troy	Power Lineperson	Fort Simpson	10 Years
Douglas, Robert	Diesel Mechanic	Fort Simpson	10 Years
Grant, Paul	Financial Quality Analyst	Hay River	10 Years
Haist, Greg	Manager, Projects	Hay River	10 Years
Horton, Sharmayne	Human Resource Officer	Hay River	10 Years
Kikoak, Dana	Customer Service Liaison Officer	Inuvik	10 Years
Antoine, Urban	Assistant Plant Operator	Tulita	5 Years
Carston, Kirk	Electrical Technologist	Hay River	5 Years
Dube, Joseph (Al)	Director, Engineering & Chief Engineer	Hay River	5 Years
English, Pat	Apprentice Power Lineperson	Inuvik	5 Years
Hendrickson, Dean	Maintenance Technologist	Hay River	5 Years
Horton, Mark	CADD Technologist/Project Officer	Hay River	5 Years
Jones, Dorothy	Capital & Financial Support Accountant	Hay River	5 Years
Kikoak, Steven	Apprentice Power Lineperson	Inuvik	5 Years
Larson, Brenda	Budget & Finance Accountant	Hay River	5 Years
Longpre, Clement	Electrician/Operator	Fort Smith	5 Years
Patrick, Randy	Director, North Slave	Yellowknife	5 Years

Left: Richard Nerysoo congratulating Sharmayne Horton on her award.
Right: Joe Staszuk receiving his 30 year long service award from Richard Nerysoo and Leon Courneya.

Connecting with our Communities

The Northwest Territories Power Corporation believes that an investment in our communities is an investment in the future. As a corporate citizen, it is our privilege to provide sponsorships and donations to non-profit organizations that work to enhance the social interests of residents of the Northwest Territories.

By keeping in touch and consulting with our customers, NTPC has responded to community needs through donations, sponsorships and in-kind assistance. Between April 1st, 2005 and March 31st, 2006, NTPC is proud to have supported over 115 organizations, events, programs and service clubs throughout the Northwest Territories. Our contributions for 2005/06 were valued at over $90,000.

Sponsorships

Open Sky Festival
NWT Basketball Association
South Slave Friendship Festival
NWT Track and Field Championships
NWT KidSport™ Program
D.A.R.E. Program

Donations

Hay River Minor Hockey
Lutsel K'e Community BBQ
PWK Grade School Graduation
Pehdzeh Ki 1st Nation
Hay River Kiwanis Club
NWT Raiders Hockey Club
Beaver Tail Jamboree
Lutsel K'e Dene First Nation
Inuvik Midnight Sun Pool
St. Pat's High School - Soccer
Fort Resolution Girls Soccer
Mad Trappers Jamboree
Fort Smith Hospital Children's Book
Muskrat Jamboree
?ehtseo Ayha School
Inuvik Homeless
Yellowknife Rotary Club
Alzheimer Research
Fort Smith Fishing Derby
Secret Santa
Fort Smith Legion
Hamlet of Sachs Harbour
Bompas School
Town of Inuvik
Chief Julien Yendo School
Inuvik Rescue Boat
NWT Literacy Council
Hay River Festival of Trees
Aurora College Graduation
International Association of Business Communicators
Hamlet of Tuktoyaktuk Christmas Lights
Hamlet of Aklavik
Hay River Rotary Club Auction
White Fox Jamboree
Hay River Golf Course
Pelican Rapids Golf Club Fort Smith
Gwich'in Hockey Team
Hay River Kids Help Phone
Harry Camsell School
Soaring Eagle Friendship Centre
Hay River PTUB Races
Fort Simpson Beavers/Cubs
Mackenzie River Jamboree
Peel River Jamboree
Fort Simpson Senior Hockey
Hay River Safe Kids Bike Rodeo
Fort Simpson Métis Association
Seven Spruce Golf Club
Hay River Play School
Fort Smith PWK Grade School Awards
Hay River Recreation Department
Hay River Fire Department
Fort Smith Catholic Women's League
NWT Association Of Communities
Diamond Jenness Hand Bell Choir Committee
Girl Guides of Canada
Fort Smith PWK Graduation
End of the Road Music Festival
Town of Fort McPherson
Fort Resolution Youth Program
Artists of the South Slave Society
Yellowknife CNIB Golf Tournament
Fort McPherson Radio Station
Whati Minor Hockey
Yellowknife Mezi Community School
Tuktoyaktuk Beluga Jamboree
Canadian Cancer Society
2008 Arctic Winter Games Bid Committee
Hay River Bowling Association
Nithtat Recreation Committee
Norman Wells, Produce North
NWT Winter Games
Inuvik Lions Club
Fort Smith Women's Hockey
Tulita DEA Graduation
NWT Women's Hockey Tournament
NWT Broomball Tournament
Hay River Elks Club
Fort Resolution Boys Soccer
Fort McPherson Snowshoe Team
Princess Alexandra School
Hay River Chamber of Commerce
Hay River Figure Skating Club
Hay River Minor Ball Association
NWT Chamber of Commerce
Helen Kalvak School
Parks Canada Picnic
Thomas Simpson School
Hay River Safe Grad Program
Norman Wells, Produce North
Hay River Legion
Diamond Jenness Parent Action Committee
NWT Biathlon Association

Management's Discussion and Analysis

The following Discussion and Analysis is intended to provide an historical and prospective analysis of the Corporation with 2005/06 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

Armil's Photography

Judith Goucher, MA
Director, Finance & CFO

The Northwest Territories Power Corporation (Corporation) is a Crown Corporation of the Government of the Northwest Territories (GNWT) and is a public agency under the *Financial Administration Act*. Under the *Northwest Territories Power Corporation Act*, it is the responsibility of the Corporation to generate, transform, transmit, distribute, deliver, sell and supply energy throughout the Northwest Territories (NWT) on a safe, economic, efficient and reliable basis. The Corporation is regulated by the Northwest Territories Public Utilities Board (PUB).

The Corporation distributes electricity to the end use consumers in 25 of 32 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 of the NWT 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, 26 of which have a population less than 1,000 and only 6 of the 32 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.

The Corporation set objectives and strategies in 2005/06 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. The Shareholder set the strategic direction which encompassed the core regulated utility business as well as the development of hydro.

Discussion of Objectives and Strategies for 2005/06

The Northwest Territories Energy Corporation (03) Ltd (NTEC03) and Sahdae Energy Limited (Sahdae) continued to work with aboriginal partners in 2005/06 to progress hydro projects on the Taltson and Bear rivers. The emphasis for the fiscal year was to continue feasibility work on the Taltson project and to further discussions with potential customers for both of these projects. The Bear river project is a 126 MW hydro generating facility which would be built to provide power to the Mackenzie Valley Pipeline and several communities in close proximity to the proposed transmission line. The Taltson project is a 36 MW project and is being looked at from the potential to supply the NWT diamond industry. NTEC03 and Sahdae will continue to work on these projects in 2006/07. A project permit for the construction of the Taltson expansion will be submitted during 2006/07.

The Corporation's employees recorded zero lost time accidents in 2005/06 bringing the period without a lost time accident to 30 months. This safety record is enviable for any industry and is most impressive considering the nature of the work undertaken by electric utility workers.

The Corporation continues to deliver services in an environmentally responsible manner. The Corporation's spill record, with a total volume of 5,405 litres, was the lowest in the past four years. 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 44% below its 1990 levels for greenhouse gas emissions. Improved engine efficiency and streetlight conversion projects were the main initiatives completed in 2005/06 aimed at further emission reduction. Reduced sales in the Yellowknife/Snare area due to the closure of two gold mines aided in emission reduction as this reduced the need for diesel generation. The majority of power in Yellowknife is now supplied by hydro. The residential energy audit program was completed in 2005/06. Energy audits have now been offered in every community that the Corporation serves directly and approximately 50% of residential customers in these communities took advantage of this program.

Under the objectives of improved reliability and quality customer service, responding to a transmission line failure due to a tower collapse caused by excessive amounts of ice occupied significant resources in 2005/06. 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 18 minutes.

The Corporation is also concerned about providing high quality customer service. The target for this objective was a good or very good rating for overall quality of service of 63.5% from residential and commercial customers. The recently completed survey had a combined rating of 60.2% therefore this objective was not achieved. In 2005/06, 85% of commercial and residential customers were satisfied or better with the quality of service from NTPC. This is a decrease from 89% in 2005. The survey was done during a time of high fuel costs with numerous riders on customer's bills to recover the higher cost of fuel. Included in the Corporation's strategies to improve customer service were energy efficiency initiatives – energy audits, streetlight conversions, customer communication – newsletters, community meetings, communiqués on rates and riders, customer service training, and sponsorships and donations primarily aimed at youth.

In 2005/06, the Corporation produced 75% of its generation with hydro and 16% with diesel. The remainder was a mix of purchased natural gas power and gas generation. The expectation for 2006/07 is a continued decline in diesel generation in communities where hydro or gas is the primary source of generation. Shifting the mix of generation to produce more power with hydro and less with diesel moves the Corporation away from the higher cost forms of generation in those communities that are tied into the hydro grid. For many communities, diesel generation is the only viable alternative and fuel prices, combined with a small customer base, will continue to impact the price of electricity. Four rate riders are now in place to recover the cost differential in fuel prices over what is included in rates. 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.

Planning for the future also includes succession planning. All senior and middle management positions have succession plans. Within the utility industry there are some positions that are difficult to recruit to and these pose a different challenge. The Corporation initiated a line apprenticeship program in 2004/05. The program continued into 2005/06 and its success has lead to an expansion of the program into the electrician and mechanic trades.

The Corporation set a number of performance measures for 2005/06, designed to measure differing aspects of corporate performance. Performance targets were set for system reliability, efficiency, safety, human resource retention and financial results. The 2005/06 Objectives and Strategies were set to maximize performance in each category. The Corporation's return on equity for 2005/06 is 8.6%, 9.4% on regulated equity.

Results of Operations

Net income for 2005/06 is $7.2 million, an increase from 2004/05 of $0.8 million. The Corporation recorded electricity sales of $65.0 million in 2005/06 (not including rider revenue), down $1.3 million or 25.1 GWh from the prior year. Mild winter weather contributed to declining sales in all customer categories. Significant declines in unit sales to the two gold mines in Yellowknife that are closing did not have a material dollar impact as 20.4 GWh were provided to Miramar Mine in 2004/05 at no cost as part of the Bluefish hydro purchase agreement. Other revenues were constant year to year. Operating expenses for 2005/06 included a $3.8 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 down $1.3 million from 2004/05. The decline in expenses was led by reduced fuel expense due to less diesel generation in the Yellowknife area. Also down were supplies and services in part due to reduced diesel generation. Salaries and wages increased over the prior year and reflect the tentative settlement of a new collective agreement along with the implementation of a new job evaluation system. Strategic positions such as the line apprentices, an Enterprise Risk Manager and a training coordinator are also represented in the 2005/06 increase.

Interest expense was down $0.8 million from the prior year due to higher earnings in sinking funds which are an offset to interest expense. The Corporation does not expect high sinking fund earnings to persist in the future. The portfolio will shift to rely more on fixed income investments as the sinking fund debentures near retirement.

Expenditures on hydro development were down $0.3 million from the prior year and account for $1.0 million of the consolidated operating expense in 2005/06. After paying a dividend of $3.5 million to the Shareholder, the Corporation increased retained earnings by $3.7 million.

Performance Measure	Long Term Target	2005/06 Expected Results	2005/06 Actual Results	2006/07 Expected Results
Debt/Equity	55/45	60/40	60/40	59/41
Plant Efficiency	3.75	3.66	3.57	3.59
Operating Cost per kWh generated	12.00 cents/kWh	13.98 cents/kWh	14.82 cents/kWh	14.34 cents/kWh
Safety – Average lost workdays per 200,000 hrs worked – last 5 years	0	12.3	12.1	10.9
System Availability	100%	99.98%	99.97%	99.98%
Staff Turnover	11%	5.5%	5.9%	9.0%

Tailrace at the Taltson Dam.

Revenues and Expenditures

All customer groups experienced declines in sales from 2004/05. Sales were anticipated to be flat over the prior year, however mild winter weather contributed to the decline.

The tables to the right illustrate sales by customer group in dollars and units.

Operating expenditures (excluding fuel rider offset, amortization and interest expense) totaled $42.9 million in 2005/06 which is down $1.8 million from the prior year. Fuel cost reductions were due mainly to significantly reduced industrial loads and access to more hydro power due to the closure of the two gold mines in Yellowknife. Supplies and services were also down, which can be attributed to lower sales volumes and a greater proportion of generation produced by hydro. Salaries and wages were up $1.3 million from the prior year. This reflects the addition of strategic positions such as five apprentice line persons, an Enterprise Risk Manager and a Training Coordinator. The salary increase also includes the impacts of a full year under a new collective agreement and an adjustment to the prior year accrual. While the agreement is not ratified the union recommended the new agreement to its members and the costs associated with the new agreement are reflected in the 2005/06 financial statements.

Electrical Sales by Customer Class

	Electrical Sales ($)		
	2006	**2005**	**Change**
General Service	21.6	21.9	(0.3)
Residential	18.5	18.7	(0.2)
Wholesale	22.6	23.0	(0.4)
Industrial*	1.4	1.6	(0.2)
Streetlights	0.9	1.0	(0.1)
Subtotal	**65.0**	**66.2**	**(1.2)**
Rider Revenue	3.8	0.2	3.6
TOTAL	**66.8**	**66.4**	**2.4**

	Electrical Sales (GWh)		
	2006	**2005**	**Change**
General Service	57.5	58.5	(1.0)
Residential	43.7	45.0	(1.3)
Wholesale	196.8	198.8	(2.0)
Industrial*	12.4	33.0	(20.6)
Streetlights	1.7	1.8	(0.1)
Subtotal	**312.1**	**337.1**	**(25.0)**
Rider Revenue	n/a	n/a	n/a
TOTAL	**312.1**	**337.1**	**(25.0)**

** Industrial numbers include generation covered under purchased power credit provided to Miramar Con Mine*

Steven Kikoak, an employee of NTPC, assists an elder across the flood waters in Aklavik.

General Rate Application 2006/08

The Corporation is in the process of filing its next General Rate Application (GRA). A number of factors are driving the need to go before the Public Utilities Board (PUB) with an application that will apply to the 2006/07 and 2007/08 test years. The Corporation's last rate application was for the test years of 2001/03. It was prepared in 1999 and 2000. The costs for these test years were forecast using the best information available at the time, however, the Corporation had just gone through Division and some costs had no historical benchmarks. Costs associated with regulation and legislation changes since the last GRA (e.g. Safety Bill C-45) are also not currently reflected in rates.

The Corporation's sales profile has changed considerably since the last rate application. In 2001/02, industrial sales represented 14% of total unit sales while in 2005/06 industrial sales were less than 4% of total unit sales. In the future, the industrial customer group will be virtually eliminated as the two gold mines are both in care and maintenance.

Since the last GRA the price of diesel fuel has risen 30 cents a litre or 50% over what is currently in rates. Gas and purchase power prices are both up to 10 cents over what is in rates, driving increases of 30% and 60% in the fuel component in rates for the communities served by gas. The impact of higher fuel prices will be offset somewhat by an adjustment to the engine efficiencies, which have improved since the last rate application and the improvement in the US/Canadian dollar exchange rate from $.62 to $.89US.

The Corporation's collective agreement expired January 2005. A new agreement has been tentatively reached however the current rates do not reflect the incremental salary and wage cost for either the new agreement or the implementation of a new job evaluation system. The Corporation will also apply to recover increased pension costs from a change in pension formula which were managed in 2005/06 through a temporary rate rider.

The increase in fuel price affects not only the cost of diesel used to generate power, but can be seen through higher transportation and freight costs. A number of other supplies and services costs such as consulting services are also flowing through inflationary increases.

As part of its GRA, the Corporation will complete a review of its amortization expense against an assessment of the useful life of assets. This analysis will determine if there is a need to apply for different amortization rates. The true up (amounts being refunded to customers due to over collection in prior years) is complete and the offset to amortization expense in the last rate application will not be repeated. The addition to amortization expense due to the termination of the true up is approximately $1.1 million. In addition, capital additions in the intervening years are being amortized and to the extent that capital additions outpace the use of assets, the amortization expense is understated.

A return on equity study will also be submitted as evidence in support of the return that the Corporation should earn on its investment considering the status of financial markets and the Corporation's operating environment.

Financing Activities

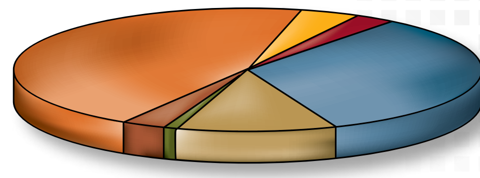
The Corporation issued $15.0 million in new long term debt in 2005/06 to convert short term debt related to capital projects.

The Corporation is reviewing its borrowing requirements for 2006/07.

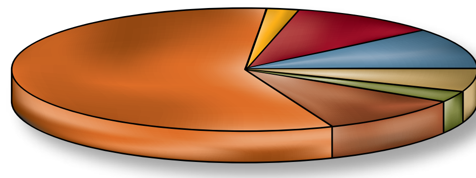
Capital Expenditures

Each year the Corporation makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. In 2005/06 the Corporation's capital program totaled $15.2 million with the majority of projects aimed at maintaining or improving reliability. The capital identified for 2006/07 continues the trend with most projects in the category of capacity and reliability. The following charts illustrate the breakdown of capital spending by category for 2005/06 and the planned spending in 2006/07 which totals $12.7 million.

2005/06 Capital Expenditures by Category



2006/07 Planned Capital by Category



	Capital Expenditures by Category	Planned Capital by Category
Administration	11%	6%
Vehicles	1%	3%
Safety	3%	10%
Capacity/Reliability	44%	58%
Savings	34%	10%
Environment	3%	10%
Distribution	4%	2%

Twenty x 50 W panels for a total of 1 kW of solar power capacity was installed on the roof of NTPC's head office in Hay River in 2003. This capacity is equal to the power required for ten x 100 W light bulbs. The system was installed to evaluate and demonstrate the long-term system performance and suitability of solar power in northern climates.

Outlook for 2006/07

Regulatory proceedings related to a Mackenzie Valley pipeline are continuing. Based on information available to date, most of the power needs related to pipeline construction and operation will be supplied by the proponents. Hydro power may be a viable option in the long term, but will not be in place before the pipeline is operational. The Corporation may see some increased sales from spin off activity 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 reflect the impact in its 2006/08 GRA.

The Corporation will continue to implement a corporate-wide enterprise risk management system in 2006/07 and will also complete and implement a new accounting and work management system. 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 the fiscal year 2006/07. The Corporation will continue to implement its ISO 14001 environmental management system.

The pursuit of hydro potential and business opportunities will continue in 2006/07. An application to construct an expansion of the Taltson hydro facility is expected to be filed by December 2006. This application will require the finalization of a joint venture with the aboriginal partners as well as contract terms with the diamond mines. Discussions with Imperial Oil Ltd. and participation in the permitting process for the pipeline will continue with respect to the Bear River project.

The NWT continues to benefit from high levels of economic activity. The Corporation is poised to be part of that activity through new hydro development, but is also keenly aware of the potential downside that increased competition for scare resources may bring. Our strategic plan is updated regularly to adapt to the changing environment but holds to the long term Vision for 2010. We continue to look for ways to 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

Technology used by the Corporation operates reliably in some of the harshest environmental conditions on the planet. Above: Allan McDonald working on L192 transmission line. Main photo: Snare hydro.

NORTHWEST TERRITORIES POWER CORPORATION

Consolidated Financial Statements
March 31, 2006

NORTHWEST TERRITORIES POWER CORPORATION

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where GAAP permits alternative accounting methods, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories Power Corporation (the Corporation) is regulated by the Public Utilities Board of the Northwest Territories, which also examines and approves its accounting policies and practices. 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.

The Corporation 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 the Corporation's aims, are protected from loss or unauthorized use and that the Corporation acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting the Corporation's affairs in accordance with the requirements of applicable laws and sound business principles, and for maintaining standards of conduct that are appropriate to a territorial Crown corporation. 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
May 26, 2006

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Power Corporation

I have audited the consolidated balance sheet of the Northwest Territories Power Corporation as at March 31, 2006 and the consolidated statements of earnings and retained earnings, 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, 2006 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 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 and 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* and regulations, *the Northwest Territories Power Corporation Act*, and the by-laws of the Corporation and its wholly-owned subsidiaries.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 26, 2006

Consolidated Statement of Earnings and Retained Earnings
For the year ended March 31
($000's)

	2006	2005
Revenues		
Sale of power	$ 65,032	$ 66,255
Fuel rider revenues (Note 3)	3,837	155
Other (Note 5)	2,050	2,043
	70,919	68,453
Expenses		
Salaries and wages	17,225	15,889
Fuels and lubricants	12,670	14,860
Fuel expense offset to rider revenue (Note 3)	3,837	155
Supplies and services	11,040	12,181
Amortization (Note 6)	8,299	7,551
Travel and accommodation	2,005	1,919
	55,076	52,555
Earnings from operations	15,843	15,898
Insurance proceeds (Note 8)	1,410	-
Insurance expenses (Note 8)	(1,410)	-
	-	-
Interest income	335	377
Earnings before interest expense	16,178	16,275
Interest expense (Note 9)	8,986	9,846
Net earnings	7,192	6,429
Retained earnings at beginning of year (Note 17)	38,941	36,097
Capital adjustment (Note 17)	-	(285)
Dividend (Note 10)	(3,500)	(3,300)
Retained earnings at end of year	$ 42,633	$ 38,941

See accompanying notes

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

	2006	2005
Cash flows from operating activities		
Cash receipts from customers	$ 70,796	$ 69,479
Cash paid to suppliers and employees	(44,167)	(50,429)
Interest received	335	220
Interest paid	(9,682)	(10,400)
Cash flows from operating activities	17,282	8,870
Cash flows used in investing activities		
Property, plant and equipment constructed or purchased & proceeds from sale of property, plant and equipment	(22,690)	(28,161)
Proceeds from insurance	3,961	2,250
Cash flows used in investing activities	(18,729)	(25,911)
Cash flows from (used in) financing activities		
Proceeds from long-term borrowings	15,000	25,000
Repayment of long-term debt	(1,032)	(998)
Sinking fund instalments	(5,685)	(3,308)
Dividends paid	(3,300)	(5,718)
Net (repayment) / proceeds from short-term borrowings	(2,000)	(1,000)
Repayment of net lease obligation	(62)	(118)
Government contributions (Note 7)	730	-
Received from Nunavut Power Corporation related to Division (Note 17)	-	5,111
Cash flows from financing activities	3,651	18,969
Net increase in cash	2,204	1,928
Cash (bank indebtedness) at beginning of year	156	(1,772)
Cash at end of year	$ 2,360	$ 156

See accompanying notes

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

	2006	2005
Assets		
Property, plant and equipment (Note 11)		
Plant in service	$ 304,694	$ 294,133
Less accumulated amortization	(76,734)	(72,215)
	227,960	221,918
Construction work in progress	11,350	4,808
	239,310	226,726
Current assets		
Cash	2,360	156
Accounts receivable	12,670	13,646
Inventories	6,547	6,832
Prepaid expenses	628	647
	22,205	21,281
Other long-term assets		
Sinking fund investments (Note 12)	37,804	28,850
Regulatory assets (Note 3)	12,073	15,879
Other deferred costs	644	642
	50,521	45,371
	$ 312,036	$ 293,378
Liabilities and Shareholder's Equity		
Long-term debt		
Long-term debt, net of sinking fund investments (Note 13)	$ 115,279	$ 110,304
Sinking fund investments presented as assets	37,804	28,850
Net lease obligation (Note 14)	1,481	1,539
	154,564	140,693
Current liabilities		
Short-term debt (Note 15)	8,000	10,000
Accounts payable and accrued liabilities	14,522	12,927
Dividends payable	3,500	3,300
Current portion of long-term debt (Note 13)	1,068	1,032
	27,090	27,259
Other long-term liabilities		
Regulatory liabilities (Note 3)	41,704	40,867
Deferred government contributions (Note 7)	380	-
Employee future benefits (Note 16)	2,536	2,489
	44,620	43,356
Shareholder's equity (Note 17)	85,762	82,070
	$ 312,036	$ 293,378
Commitments and contingencies (Note 18)		

See accompanying notes

Approved on behalf of the Board:

Richard Nerysoo
Chairman of the Board

Louis Sebert
Director

1. Authority and operation

The NWT Power Corporation (the Corporation, NTPC) is established under the *Northwest Territories Power Corporation Act.* The Corporation is a public agency under Schedule B of the *Financial Administration Act* and is exempt from income tax.

The Corporation operates diesel, natural gas and hydroelectric production facilities to provide utility services on a self-sustaining basis in the Northwest Territories.

2. Accounting policies

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries NWT Energy Corporation Ltd., NWT Energy Corporation (03) Ltd., Sahdae Energy Ltd., and 5383 NWT Ltd.

NWT Energy Corporation Ltd., 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. The NWT Energy Corporation (03) Ltd. has two operations: the operation, management and shared ownership of one residual heat project in Fort McPherson and the development of business opportunities outside the regulated business including development of hydroelectric projects. Sahdae Energy Ltd. began operations in 2005. Its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley pipeline. 5383 NWT Ltd. is an inactive company.

Rate Regulation

The Corporation, with the exception of its subsidiary companies, is regulated by the Public Utilities Board of the Northwest Territories (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 Government of the Northwest Territories (GNWT), and the Corporation is a public agency of the GNWT, the Corporation and the PUB are related parties. Although the PUB and NTPC are related parties, the GNWT can only provide general guidance to the PUB and cannot give specific direction to the PUB on a case before them, therefore the PUB and the Corporation are not under the same influence or control from the GNWT. The Corporation is subject to a cost of service regulatory mechanism under which the PUB establishes the revenues required (i) to recover the forecast operating costs, including amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. In the 2001/03 General Rate Application (GRA) the PUB approved an allowed rate of return of 9.5%. As actual operating conditions will vary from forecast, actual returns achieved will differ from approved returns.

The PUB is required by the *Public Utilities Act* to review the affairs, earnings and accounts of the Corporation a minimum of every three years. The regulatory hearing process used to establish or change rates typically begins when the Corporation makes a general rate application for its proposed electricity rate changes.

The PUB typically follows a two-stage decision process for GRAs. In the first stage, the total costs (revenue requirement) that the Corporation will incur to provide electricity to its customers in the Test Year(s) are approved. The approval of these costs determines the total revenues the Corporation is allowed to collect from its customers. It is the responsibility of the PUB to examine the legitimacy of three classes of costs:

i) the costs to the Corporation to run its operations and maintain its equipment (personnel and materials);

ii) the cost associated with the amortization of its plant and equipment;

iii) the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the PUB reviews the additions of the costs to the rate base and assesses these costs to ensure they are prudent.

In the second stage, the PUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes served by the Corporation: industrial, wholesale, general service, residential and streetlights. This process is guided mainly by a cost of service study which allocates the overall utility cost of service to the various customer classes on the basis of proposed costing principles.

Normally, the Corporation applies for rates in advance of the applicable Test Years. The last rate application was for the 2002/03 Test Year. 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.

Capitalized allowance for funds used during construction

The PUB allows the Corporation to capitalize an allowance for funds used during construction (AFUDC) based on the most recent PUB approved cost of capital for the Corporation.

Revenues

Sale of power, interest, contract and other revenues are recognized on the accrual basis and include an estimate of services provided but not yet billed.

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. Regulated operations within the Corporation include in property, plant and equipment an allowance for funds used during construction (AFUDC) at a rate approved by the PUB. Property, plant and equipment in the subsidiaries include only acquisition costs.

Certain regulated additions are made with the assistance of non-refundable 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. The Corporation retains ownership of these assets.

When a regulated 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.

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 that are not otherwise related to an asset retirement obligation.

Amortization rates are as follows

	%
Electric power plants	1.16 - 5.25
Transmission and distribution systems	1.09 - 4.66
Electric power plants under capital lease	1.16 - 5.25
Warehouse, equipment, motor vehicles and general facilities	1.76 - 9.76
Other utility assets	2.5 - 20.0
Other	20.0

Inventories

Fuels and lubricants and materials and supplies are valued at average cost.

Asset retirement obligations

The Corporation has asset retirement obligations for certain of its transmission and distribution assets. However, the Corporation expects to operate these assets in perpetuity and therefore it is not possible to make a reasonable estimate of the fair value of these obligations at this time. The Corporation intends to recognize asset retirement obligations when the timing and cost can be reasonably estimated.

Sinking fund investments

Securities held in sinking funds are recorded at cost. Interest, dividends and realized gains and losses are included in sinking fund income. Unrealized gains are not recognized. Unrealized losses are recognized only when the decline in value is considered other than a temporary decline in the value of the sinking fund investments.

Public Service Pension Plan

Employees participate in the Public Service Pension Plan (the Plan) administered by the Government of Canada. The Corporation's contributions to the Plan are expressed as a percentage of employees' contributions. The percentage may fluctuate from year to year depending on the experience of the Plan. The Corporation's contributions are charged to operations on a current basis and represent the total pension obligations. The Corporation is not required 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 cost of these non-pension benefits has been determined based on management's best estimates and accrued as a liability as employees render service.

Measurement uncertainty

To prepare these financial statements in accordance with Canadian generally accepted accounting principles (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. Actual results may differ from these estimates. Significant estimates include amortization, employee future benefits, regulatory assets and liabilities and asset retirement obligations.

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

New accounting recommendations

In January 2005 the CICA issued a number of new Handbook Sections including Section 3855 "Financial Instruments – Recognition and Measurement", Section 1530 "Comprehensive Income" and Section 3251 "Equity". Section 3855 "Financial Instruments – Recognition and Measurement" provides standards on the recognition and measurement of financial assets, liabilities and non-financial derivatives. Section 1530 "Comprehensive Income" establishes standards on the reporting and display of changes in equity from transactions and other events and circumstances from non-owner sources (comprehensive income). Section 3251 "Equity" established standards for the presentation of equity and changes in the reporting period. All of these Sections are effective for fiscal years beginning on or after October 1, 2006. The Corporation is currently evaluating these Sections and their implications in a regulated environment.

In December 2005 the CICA Emerging Issues Committee issued EIC-159 "Conditional Asset Retirement Obligations". It dealt with the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when timing and/or method of settlement are conditional on a future event. The purpose of this Abstract is to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This accounting treatment should be applied retroactively, with restatement of prior periods to all financial statements for reporting periods ending after March 31, 2006.

3. Financial statement effects of rate regulation

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, the Corporation defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of earnings as they collect or refund amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the PUB renders a subsequent decision.

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

Regulatory Assets

	2006	2005	Remaining recovery period
Rate Stabilization Funds (a)	$ 4,040	$ 3,078	Determined by PUB
Reserve for Injuries and Damages (a)	2,579	1,612	Determined by PUB
Snare Cascades Deferral Account	1,010	1,774	5 years
Regulated Employee Future Benefits (a)	1,884	1,354	Determined by PUB
Regulatory Costs	1,232	1,121	Determined by PUB
Financing Costs (a)	1,043	1,180	27 years
Other regulated assets	583	1,000	Determined by PUB
Normalized Overhaul Costs (a)	(298)	226	Determined by PUB
L-199 transmission line costs (a)	-	4,534	N/A
	$ 12,073	$ 15,879	

(a) the rate base does not include an allowance for a return on investment for this item.

Rate Stabilization Funds

The Rate Stabilization Funds were established by the PUB in 1997/98 through Decision 1-97. The funds mitigate the impact of volatile changes on utility rates from changes in diesel and natural gas fuel prices as well as fluctuations in hydro generation caused by water levels. The impact of any increases or decreases in fuel prices or hydro generation over the PUB approved amounts is deferred. The deferred amounts are accumulated until PUB specified limits are reached, 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 result of the year that they are incurred. In 2006, fuel expenses were deferred and consequently lower by the amounts of fuel $4,254 (2005 - $2,309) and water $388 (2005 - $1,428). Interest expense resulting from the interest accrued on the balance of the funds was lower by $157 (2005 - $46). The combined effect was to increase net income by $4,799 (2005 - $3,783).

There were five fuel stabilization fund rate riders in effect in 2006. These riders collected revenues related to fuel expenses deferred in prior years. As a result, in the absence of rate regulation fuel expenses would have been lower by $3,837 (2005 – $155). See further discussion under Note 4.

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 the Corporation faces during a given year. In the last GRA, the PUB approved $485 to be included in annual expenses for this fund. In 2006 actual costs deferred to this account totalled $1,452 (2005 - $1,084). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred, resulting in an net increase to net income in the amount of $967 (2005 - $599).

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 2006, the rider resulting from this fund increased other revenues by $922 (2005 - $926) and fuel expense was increased by $764 (2005 - $720). The combined effect was to increase net income by $158 (2005 - $206).

The rider rate set to collect the balance in this fund was adjusted for 2007 to draw the collection term out to 2011. The Corporation expects to collect $410 in rider revenue in 2007 as a result of the rider adjustment.

Regulated Employee Future Benefits

Regulated Employee Future Benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 16). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The reduction in salaries and wages expenses has the effect of increasing net income by $430 (2005 - $285).

Regulatory Costs

Regulatory Costs include all third party costs and staff overtime, supplies, services and travel the Corporation incurs directly related to General Rate Applications and related regulatory proceedings incurred by the Corporation. 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 the Corporation incurs and this will vary from year to year as regulatory issues arise. In the last GRA, the PUB approved $228 to be included in annual expenses for this fund. In 2006 actual costs deferred to this account totalled $339 (2005 - $16) resulting in an increase to net income in the amount of $111 (2005 – decrease $212).

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 27 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 increase in interest expenses as a result of rate regulation has the effect of decreasing net income by $137 (2005 - $43).

Other regulatory assets

Other regulatory assets include deferred water license costs, pending insurance claims costs and other costs. These costs are subject to recovery through insurance, the courts or 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 3 to 20 years. Consequently, in the absence of rate regulation, operational expenses would increase by $130 (2005 – $782) and annual amortization expense would decrease by $72 (2005 - $346), resulting in a net increase in net income of $58 (2005 – increase of $436).

Normalized Overhaul Costs

The 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 last GRA, the PUB approved $1,573 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 2006 actual costs deferred to this account totalled $1,049 (2005 - $2,267) resulting in a net decrease in net income of $ 524 (2005 – increase of $694).

L-199 transmission line costs

The L-199 transmission line costs captures the amounts spent to recommission and litigate outstanding issues with respect to the L-199 transmission line. The PUB approved these costs in the 2001/02 General Rate Application. The PUB directed that these costs be set up in a deferral account until such time as the litigation is completed. In 2006, the Corporation received a final settlement on litigation of $1,605. As per PUB Decision 1-2002, in January 2006, the Corporation included the balance of the previously deferred L-199 transmission line costs to its plant, property and equipment for future application to the PUB on the final disposition of this asset. The balance transferred from the deferral account to plant, property and equipment was $3,068 net of litigation proceeds. In the absence of rate regulation, GAAP would require that the amount spent to recommission the line be capitalized and the subsequent recovery of any proceeds from litigation be recorded as revenues at the time they were received. In 2006, interest income as a result of financing charges added to the balance of the deferral account was $139 (2005 - $162) higher, annual amortization expense was $90 (2005 - $120) lower and revenues were $1,605 (2005 – nil) lower than they would have been in the absence of rate regulation. The net effect is a decrease in net income of $1,376 (2005 – increase of $282).

Regulatory Liabilities

	2006	2005	Remaining settlement period
Reserve for Future Removal and Site Restoration	$ 37,776	$ 37,154	Determined by PUB
Deferred revenues	3,928	3,713	Determined by PUB
	$ 41,704	$ 40,867	

The Corporation also has regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case if the Corporation was unregulated.

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 Corporation's operating sites that are not otherwise related to an asset retirement obligation. A provision for environmental costs related to future costs required to remediate past contamination is also included in the reserve. 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, site clean up or past environmental remediation 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:

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

In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation the Corporation's 2006 expenses would have been higher by the amount of the removal and site restoration costs deferred in the year of $938 (2005 - $1,422). Amortization expenses were $1,561 (2005 - $1,461) higher than they would be in the absence of rate regulation. The net effect on net income is a decrease in the amount of $623 (2005 – $39).

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. 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 unde*r Amortization*. In 2006, revenues were $595 (2005 - $416) lower than they would have been and amortization on plant, property and equipment was $381 lower (2005 - $369) than they would have been in the absence of rate regulation. The net effect on net income is a decrease in the amount of $214 (2005 – $47).

The summarized impact of rate regulation to increase (decrease) net income:

		2006		2005
Rate Stabilization Funds	$	962	$	3,628
Reserve for Injuries and Damages		967		599
Snare Cascades Deferral Account		158		206
Regulated Employee Future Benefits		430		285
Regulatory Costs		111		(212)
Financing cost		(137)		(43)
Other regulatory assets		58		436
Normalized Overhaul Costs		(524)		694
L-199 transmission line costs		(1,376)		282
Reserve for Future Removal and Site Restoration		(623)		(39)
Deferred revenues		(214)		(47)
	$	(188)	$	5,789

4. Regulatory matters

Given the continued increase in fuel costs over the year, the Corporation applied for an increase to three of the fuel stabilization fund rate riders. Prior to March 31, 2006, the Corporation received approval for an increase to three of the rate riders. With the approved increases, the five fuel stabilization fund riders are expected to collect $6,377 in 2007 (2006 - $3,837).

The Corporation intends to file during 2006/07 a general rate application with the PUB for the 2006/07 and 2007/08 Test Years requesting, among other things, increase revenues to recover increased amortization and operating costs associated with increased rate base in the Northwest Territories. A decision from the PUB on the GRA is not expected until late in 2006/07. The Corporation will file an application requesting interim refundable rates pending the PUB's decision on the General Rate Application.

5. Other revenues

		2006		2005
Pension expenses rider/ GNWT funding (Note 16)	$	745	$	618
Contract work		379		653
User fees		345		340
Miscellaneous		252		226
Connection fees		184		194
Government assistance (Note 7)		145		12
	$	2,050	$	2,043

6. Amortization

		2006		2005
Property, plant & equipment	$	7,892	$	7,239
Deferred charges		407		312
	$	8,299	$	7,551

7. Government assistance

In 2006, the GNWT agreed to provide the Corporation's subsidiary, the NWT Energy Corporation (03) Ltd. (NTEC), $1,775 between 2006 and 2007 to study increasing the hydro capacity at the Taltson Hydro Facility. Under the first contribution agreement, NTEC received $730 in funding in 2006 to cover $380 of spending on capital projects in 2006 and $350 to provide an advance on the funding for 2007. NTEC has accounted for the $380 as a deferred government contributions and the $350 is included in accounts payable.

The Corporation has four agreements with the territorial and federal governments to provide funding assistance to offset costs incurred by the Corporation in the energy assessment, apprenticeship, and micro turbine programs. The funding provided under these agreements in 2006 was $145 (2005 - $12) and is included in other revenues (Note 5). These agreements end in 2007.

8. Insurance proceeds and expenses

In 2006 the Corporation settled two insurance claims, one related to the Fort McPherson fire from January 2003 and the other from an engine failure in Inuvik from March 2005. The Corporation received $6,711 for the Fort McPherson fire of which $5,488 was recorded as an offset to the replacement plant that was built and $1,223 recorded as revenues to offset associated salary, supplies and travel expenses involved in responding to the emergency, restoring power, site clean up and disposal of the assets. The Corporation received $601 for an engine failure in Inuvik, of which $414 was recorded as an offset to the replacement plant that was built and $187 recorded as revenues to offset associated fuel expenses involved in responding to the emergency and restoring power.

9. Interest expense

	2006	2005
Interest on long-term debt	$ 12,801	$ 12,133
Short-term financing costs	318	328
Sinking fund income	(3,269)	(1,460)
Capitalized allowance for funds used during construction	(864)	(1,155)
	$ 8,986	$ 9,846

10. Dividend

Pursuant to Section 29 of the *Northwest Territories Power Corporation Act,* the GNWT directed the Corporation to declare a dividend of $3,500 (2005 - $3,300).

11. Property, plant and equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Electric power plants	$ 173,755	$ (46,205)	$ 127,550	$ 124,812
Transmission and distribution systems	67,872	(12,959)	54,913	51,678
Electric power plants under capital lease	26,342	(3,919)	22,423	23,180
Warehouse, equipment, motor vehicles and general facilities	24,136	(8,730)	15,406	14,809
Other utility assets	4,199	(941)	3,258	3,277
Other	8,390	(3,980)	4,410	4,162
	304,694	(76,734)	227,960	221,918
Construction work in progress	11,350	-	11,350	4,808
	$ 316,044	$ (76,734)	$ 239,310	$ 226,726

Engineering and other direct overhead expenses capitalized during the year amounted to $1,666 (2005 - $1,177).

12. 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.

The sinking fund agreements require the Corporation to make annual installments to retire debt at maturity. The installments calculated for the next five years are disclosed in Note 13. Fair value information for sinking funds is included in Note 20. The Corporation realized a return of 9.72% (2005 – 5.52%) on the sinking funds.

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. The Corporation's sinking fund policy limits investments in equities to 30% of the total sinking fund market value. Equities are in two funds and are well diversified by sector, issuer, region and liquidity.

Immunized Investments

In 2006, the Corporation 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. The Corporation intends to hold these investments to maturity.

	2006		2005	
	Carrying Value	**Weighted average effective rate of return (1)**	**Carrying Value**	**Weighted average effective rate of return (1)**
General Portfolio				
Fixed Income Securities				
Federal Government guaranteed	$ 13,786	4.72%	$ 9,953	4.74%
Corporate Bonds	8,697	5.35%	6,414	5.27%
Municipal Government guaranteed	2,961	5.67%	2,639	5.64%
Provincial Government guaranteed	1,103	5.23%	672	5.29%
Cash and short-term investments	18	0.30%	3,770	2.56%
Equities				
Canadian	-		5,402	
	26,565		28,850	
Immunized Investments				
Federal Government guaranteed	11,239	4.10%	-	-
	$ 37,804		$ 28,850	

(1) Rate calculated on market yield for cash and fixed income securities.

13. Long-term debt

	2006	2005
5.995% redeemable debenture due December 15, 2034	$ 25,000	$ 25,000
11% sinking fund debentures, due March 9, 2009	20,000	20,000
10 ¾% sinking fund debentures, due May 28, 2012	20,000	20,000
6.63% amortizing debenture, due December 18, 2032	18,000	18,666
11 1/8% sinking fund debentures, due June 6, 2011	15,000	15,000
5% redeemable debenture due July 11, 2025	15,000	-
6.33% redeemable sinking fund debentures, due October 27, 2018	10,000	10,000
8.41% redeemable sinking fund debentures, due February 27, 2026	8,700	8,700
9.11% debenture series 3, due September 1, 2026, repayable in equal monthly payments of $73	8,120	8,250
9¾% debenture series 2, due October 1, 2025, repayable in equal monthly payments of $69	7,177	7,294
10% debenture series 1, due May 1, 2025, repayable in equal monthly payments of $70	7,154	7,271
Other	-	5
	154,151	140,186
Less: Current portion	1,068	1,032
	153,083	139,154
Less: Sinking fund investments	37,804	28,850
	$ 115,279	$ 110,304

All long-term debt is guaranteed by the GNWT.

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

	2007	2008	2009	2010	2011
Principal Repayments	1,068	1,105	21,153	1,202	1,255
Sinking Fund Investment Contributions	2,000	2,000	1,950	1,950	1,950

14. Net lease obligation

The NWT Energy Corporation Ltd. 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 $20,895 (2005 - $21,213). The loan bears interest at an annual rate of 9.6%, which is the average rate of interest on NWT Energy Corporation Ltd.'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.

The Corporation 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 $22,434 (2005 - $22,839).

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

Upon consolidation, the loan receivable held by NWT Energy Corporation Ltd. is offset with the capital lease obligation of the Corporation resulting in a net lease obligation of $1,539 (2005 - $1,626). 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 net lease obligation payments / (receipts) over the next five years are:

2007	2008	2009	2010	2011
$ 58	$ 20	$ (19)	$ (61)	$ (108)

The current portion of the net lease obligation is $58 (2005 - $87) and is recorded in accounts payable.

15. Short–term debt

The interest rate charged on bank overdrafts is prime. The short-term debt outstanding at year-end had a weighted average 90 day term (2005 – 90 day term) and a 3.61% (2005 – 2.55%) weighted average annual interest rate.

The Corporation has a $15,500 unsecured line of credit with its bank, from which nothing was outstanding at year end. The Corporation also has access on occasion to short term funds from its Shareholder.

16. Employee future benefits

The Corporation 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 in the Consumer Price Index. In 2005, the Corporation received funding, recorded as other revenues, from the GNWT of $618 to cover part of these pension expenses. As of April 1, 2005 the GNWT ceased its funding of the PSPP. The PUB approved a rate rider to collect $745 for fiscal year 2005/06 to replace funding previously received from the GNWT.

a) Contributions to the Public Service Pension Plan were as follows:

	2006	2005
Employer's contributions	$ 1,620	$ 1,359
Employees' contributions	676	683
Pension expenses rider / GNWT funding	(745)	(618)
	$ 1,551	$ 1,424

The Corporation provides severance benefits to its employees based on 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:

	2006	2005
Accrued benefit obligation, beginning of the year	$ 2,489	$ 2,022
Costs for the year	299	511
Benefits paid during the year	(252)	(44)
Accrued benefit obligation, end of the year	$ 2,536	$ 2,489

17. Shareholder's equity and capital adjustment

	2006	2005
Capital Stock		
Authorized: unlimited number of voting common shares without par value		
Issued: 431,288 common shares	$ 43,129	$ 43,129
Retained earnings at beginning of year	38,941	36,097
Capital adjustment – Division	-	(285)
Net earnings less dividends declared	3,692	3,129
Retained earnings at end of year	42,633	38,941
	$ 85,762	$ 82,070

Capital adjustment - Division

All corporate operations within the Nunavut Territory were taken over by the Nunavut Power Corporation (NPC) on April 1, 2001. The allocation of the Corporation's assets, liabilities and Shareholder's equity between its Nunavut operations to NPC and its Northwest Territories operations to the Corporation was governed by two agreements, a due diligence process and approval by the Corporation, Government of the Northwest Territories (GNWT), NPC and the Government of Nunavut (GN). Certain allocations in the division process were disputed and taken to arbitration as set out in the agreement.

In September 2004 the disputed allocations of assets, liabilities and Shareholders' equity between the Corporation and NPC were settled. The Corporation collected $5,111 as part of this settlement. A capital adjustment reducing retained earnings was made in the 2005 financial results in the same manner as was done for the original allocation of assets, liabilities and Shareholders' equity between the Corporation and NPC.

18. Commitments and contingencies

Capital projects

The estimated cost to complete capital projects in progress, as at March 31, 2006, was $8,077 (2005 - $12,701).

Supply contracts

The Corporation has a contract to purchase refined oil products based on market prices at time of delivery. This contract ends in 2007 and has a minimum quantity purchase commitments totalling 300,000 litres in this one year period, consistent with the Corporation's operational requirements.

Natural gas purchase commitment

The Corporation has an agreement to purchase natural gas to produce electricity in Inuvik. The minimum obligation is to purchase 5,622,900m^3 of natural gas per annum until July 2014, consistent with the Corporation'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.

Litigation

The Corporation has been named as a defendant in five lawsuits. Two actions relate to wrongful dismissal cases, which were raised in 1997/98 and in 2000/01. The third action names the Corporation 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 and no further action is expected on this lawsuit. In the fourth action the Corporation is being sued by a contractor to recover amounts owing related to work completed by the contractor. The Corporation is disputing the completion of the work. This lawsuit was raised in January 2006. The total liquidated amount of these claims ranges from $108 to $513, exclusive of costs and interest. The fifth action, which has been ongoing since July 1996, names the Corporation 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 the Corporation will result from any of these four claims. In the event that any of these claims are not settled in favour of the Corporation, the Corporation has insurance which may cover all or a portion of the settlement cost.

19. Related party transactions

The Corporation is a territorial Crown corporation and consequently is related to the GNWT and its agencies and corporations.

The Corporation 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:

		2006		**2005**
Sale of power and other	$	20,838	$	18,589
Purchase of fuel from government		6,463		1,658
Fuel tax paid to government		486		767
Other purchases and payments		736		470
Balances at year end:				
Accounts receivable		2,233		1,728
Accounts payable		956		419
Promissory note (included in short-term debt)		8,000		10,000
Dividend payable		3,500		3,300

20. Financial instruments

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 154,151	$ 187,381	$ 140,186	$ 171,557
Net lease obligation	1,539	4,811	1,626	3,974
Sinking fund investments	37,804	37,443	28,850	29,636

The fair values of cash, other current accounts receivable and payable and short-term debt approximate the carrying amounts of these instruments due to the short period to maturity.

The fair values for the long-term debt and net lease obligation are determined using market prices for similar instruments.

The fair value of the sinking fund investments is determined using market prices.

21. Subsequent events – Fuel Management Services Agreement

In December 2005, the Corporation entered into 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 the Corporation to PPD. As of March 31, 2006, five communities had been transferred under this agreement. The Corporation expects to transfer the remaining 15 communities by December 2006.

22. Comparative figures

Certain of the 2005 figures have been reclassified to conform to the financial statement presentation adopted for 2006.

Wayne LeBlanc and Steven Kikoak working on Inuvik substation.

GOVERNANCE

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

NTPC Comments

Five of six Directors are independent and the Chairman of the Board is independent.

Independent Directors meet in camera at every Board meeting.

The Board has a written mandate covering a majority of these items.

Guideline

Composition of Board:

The board should have a majority of independent directors.

The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed as "lead director". However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.

Meeting of Independent Directors

The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

Board Mandate

The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for the stewardship of the issuer, including responsibility for:

a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive offices and that the CEO and other executive officers create a culture of integrity throughout the organization;

b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of business;

c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;

d) succession planning (including appointing, training and monitoring senior management);

e) adopting a communication policy for the issuer;

f) the issuer's internal control and management information systems; and,

g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.

The written mandate of the board should also set out:

(i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and

(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.

Guideline

NTPC Comments

Position Descriptions

The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.

A position description exists for the CEO, but not for the Chairs

Orientation and Continuing Education

The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.

The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.

All new board members receive a Guide to the Board of Directors and orientation provided by the CEO. Continuing education is provided annually to all members and members attend training as desired.

Code of Business Conduct & Ethics

The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrong doing. In particular, it should address the following issues:

(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;

(b) protection and proper use of corporate assets and opportunities;

(c) confidentiality of corporate information;

(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;

(e) compliance with laws, rules and regulations; and

(f) reporting of any illegal or unethical behaviour.

The Corporation has a Code of Ethics.

The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.

The CEO monitors employees and approves any exception to the policy. The Chairman of the Board monitors the CEO and approves any exception to the policy.

Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-103 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect the material change report will disclose, among other things:

- the date of the departure(s),
- the party(ies) involved in the departure(s),
- the reason why the board has or had not sanctioned the departure(s), and
- any measures the board has taken to address or remedy the departure(s).

NTPC Comments

All board members are involved in identifying potential members for the board with the Chairman of the Board having overall responsibility.

Guidelines have been developed to assist in identifying potential members.

There is a Governance and Compensation committee of the Board of Directors, with two of the three Committee members being independent.

The committee has written Terms of Reference that cover the majority of these items.

The committee sets objectives for the CEO and evaluates the CEO's performance and sets and approves compensation for all senior management.

**As a Crown Corporation, Directors are appointed by the Minister responsible for the Northwest Territories Power Corporation.*

Guideline

Nomination of Directors

The board should appoint a nominating committee composed entirely of independent directors.

The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure of operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.

The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of Shareholders.*

In making recommendations, the nominating committee should consider:

(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to process;

(b) the competencies and skills that the board considers each existing director to possess; and

(c) the competencies and skills each new nominee will bring to the boardroom.

The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.

Compensation

The board should appoint a compensation committee composed entirely of independent directors.

The compensation committee should have a written chart that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members of sub-committees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.

The compensation committee should be responsible for:

(a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;

(b) making recommendations to the board with respect to non-CEO officers and director compensations, incentive-compensation plans and equity-based plans; and

(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.

Guideline

NTPC Comments

Regular Board Assessments

The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:

(a) in the case of the board or a board committee, its mandate or charter, and

(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.

An assessment of the Board of Directors is completed annually.

Board of Directors

Below are the names of the Board of Directors of the Northwest Territories Power Corporation between April 1, 2005 and March 31, 2006, along with their positions with the Corporation and Board Meeting attendance for the six meetings held during this period.

Name	Year became a Director	Office	Principal Occupation	Attendance %
Richard Nerysoo	November 2002	Chairman of the Board	President, Trailbreaker Energy Services Inc.	100%
Peter Allen	November 2002	Vice Chairman of the Board. Chairman, Governance & Compensation Committee	President, The Nexus Group Limited	83%
Leon Courneya	November 2004	Board Director	President and CEO, Northwest Territories Power Corporation and subsidiaries. President since July 1, 1996 and CEO since December 7, 1997.	100%
Louis Sebert	November 2002	Board Director	Lawyer-Sole Practitioner	100%
Marion LaVigne	November 2002	Board Director	President and a Principal of Outcrop Ltd.	100%
Peter Guther	November 2002	Board Director Chairman, Audit and Efficiency Committee	President, Yamouri Inn Ltd, Rampart Rentals, Corporate Secretary, Polar Energy Services Ltd, President, Apex Investments Ltd.	67%
Gladys Norwegian*	March 2005	Board Director	Curriculum Development Specialist, Dene Cultural Institute	83%

**Resigned October 2005*

Board of Directors

Members and Advisors
As of March 31, 2006

Back Row: Peter Allen, Vice Chairman; Louis Sebert, Director; Leon Courneya, Director
Front Row: Cheryl Tordoff, Corporate Secretary; Richard Nerysoo, Chairman; Marion LaVigne, Director
Absent from Photo: Peter Guther, Director

Officers of the Corporation

Richard Nerysoo
Chairman

Leon Courneya, FCA
President & Chief Executive Officer

Judith Goucher, MA
Director, Finance & CFO

Al Dube, P. Eng.
Director, Engineering & Chief Engineer

Brian Willows
Director, Corporate Operations
Director, Delta-Sahtu

John Locke
Director, Information Systems & CIO

Cheryle Donahue
Director, Human Resources

Paul Campbell
Director, Deh Cho – South Slave

Randy Patrick, MA, MBA, BCom
Director, North Slave

Herbert Blake
Assistant Director, Delta-Sahtu

Dan Grabke
Director, Business Development
NTEC 03 Ltd.

Cheryl Tordoff
Corporate Secretary

Audit and Efficiency Committee
Peter Guther, Chairman

Louis Sebert, Committee Member

Marion LaVigne, Committee Member

Governance and Compensation Committee
Peter Allen, Chairman

Richard Nerysoo, Committee Member

Leon Courneya, Committee Member

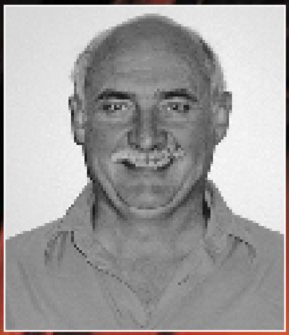
In Memoriam

The Northwest Territories Power Corporation lost two of its valued colleagues this year with the passing of Noreen Foster and Richard Mach.

Noreen Foster

February 24, 1952 - June 24, 2005

Noreen held many positions at head office, all of which she approached with a great deal of enthusiasm. You could always count on Noreen to do whatever needed to be done and with a smile on her face. Noreen was an active participant in many of our head office social club events and whether she was swinging a golf club or swinging her hips to the music at the Christmas party, Noreen enjoyed herself immensely. Her laughter was infectious and there was always a little extra bounce in her step. Noreen displayed a great deal of faith, courage and strength during her illness, which allowed her friends and co-workers to be strong with her. She was a true colleague and friend and is greatly missed.



Richard (Dick) Mach

December 22, 1953 - November 25, 2005

Dick started with the Corporation in April 1999 in the Logistics division bringing his considerable experience from operating his own business for many years. Dick was an integral part of the Logistics Department and a major player in the development of the Corporations Purchasing Policies & Procedures. Dick brought the energy and work ethic of a small business owner to his job at the Corporation, doing an outstanding job in his short time with us while still finding the time and energy to build two houses. Dick was active in the community coaching junior curling, sponsoring a commercial league golf team, skiing, snow mobiling and motor cycling. His quiet humour will be missed by all who knew and worked with him.

In Memoriam

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