Northwest Territories Power Corporation

Vision

To be recognized as a progressive company.

Mission

To provide safe, reliable energy and related services in the Northwest Territories while following sound business practices and demonstrating leadership in protecting the environment. In achieving the Corporation's Vision Statement and objectives, we will endeavor 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 our 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; and*
- *Communicate in an open and timely manner.*

The Northwest Territories Power Corporation is a crown corporation established by the Northwest Territories Power Corporation Act of 1988. It is owned by the Government of the Northwest Territories, represented by the Minister Responsible for the Northwest Territories Power Corporation. It is governed by a Board of Directors appointed by the Minister.

It is the responsibility of the Corporation to generate, transform, transmit, distribute, deliver, sell and supply electrical and heat energy throughout the Northwest Territories on a safe, economic and reliable basis. The Corporation is subject to regulation by the NWT Public Utilities Board.

The Corporation distributes electricity directly to the consumer in most of the 54 communities it serves. It also supplies electricity on a wholesale basis to two distributing utilities, which in turn, retail electricity to customers in Yellowknife and Hay River. In Inuvik, the Corporation also provides retail heat and operates, under contract, the water and sewerage services.

The Corporation is comprised of 47 separate power systems serving a population of 68,000 in 54 communities over an area of 3.4 million square kilometres. The total load is approximately 90 megawatts, ranging from systems as large as 64,000 kilowatts capacity in Yellowknife, to 150 kilowatts at Jean Marie River. Since these systems are separate and unconnected, each must be planned, managed and operated independently.

The Corporation employs 295 utility professionals, of which approximately 50 percent qualify for Affirmative Action Status, and 70 percent were hired from the North. The Corporation is headquartered in Hay River, Northwest Territories.

Celebrating a Golden Anniversary and a Decade of Northern Ownership

The year 1998 is one of milestones for our utility in the Northwest Territories – 50 years of providing power to northern communities, and ten years as a Crown Corporation of the Government of the Northwest Territories.

In 1948, the federal government saw the rapid expansion of the mining sector near Yellowknife as an indicator of the need for a co-ordinated utility industry in the North. An Act of Parliament established the Northwest Territories Power Commission (in 1956 when operations expanded to include Yukon, renamed the Northern Canada Power Commission). One of the first projects commissioned by the new utility, in October, 1948, was the 8 megawatt Snare Rapids hydro facility on the Snare River, 150 kilometres north of Yellowknife.

When the Territorial government acquired the Northern Canada Power Commission from the federal government on May 5, 1988, the head office, comprising 100 employees serving 13,000 customers, was located in Edmonton. The utility was not publicly regulated and the federal government set the rates.

The utility acquired by the Government of the Northwest Territories presented a challenge that would demand resourcefulness of the Board and every Corporation employee. Plant and equipment had deteriorated to the point where reliability in some communities was suffering. Rates were barely sufficient to cover the cost of providing power, leaving nothing for re-investing in new equipment.

Over its first decade, the Corporation has spent $200 million improving the state of plant and equipment to better serve our 17,000 customers in 54 communities. We built a new, 140 kilometre steel-tower transmission line connecting Yellowknife to the four hydro facilities on the Snare River, replacing a 40-year-old wood pole line. We built seven new power plants, installed over 80 new diesel engines and worked with the Dogrib Nation to construct the Snare Cascades hydro plant. Our head office is now located in Hay River, where 80 employees provide direction and administrative back-up for 215 staff in the field.

The Corporation is now fully regulated by the Public Utilities Board of the Northwest Territories, one of only a handful of crown-owned utilities subject to full regulation. Review by the PUB with participation from major customer groups ensures that the decisions taken by management are in the best interests of the customers we serve.

Our work with the PUB has allowed us to design rates that are fair to the customers, the Corporation, and our shareholder, the NWT Government. After 10 years of study it has been determined that each northern community should be its own rate zone and pay rates that reflect the cost of operating the utility in that community. We will complete adjustments to cost based rates for each community over the next three years.

Increases in revenue requirements over the last 10 years have resulted in rate increases of 18%. The rate of inflation, measured by the national Consumer Price Index for the same period was 29%. In addition to funding $200 million in capital projects, the Corporation improved its financial outlook from minimal profit in its first year to $10.5 million profit this year.

Over this 10-year period we have returned $35 million to the GNWT in dividends. These dividends have been used to fund the Territorial Power Support Program, which subsidizes rates across the Territories. We also have paid in full the $53 million long-term debt assumed by the NWT Government when it took over operations from the federal corporation in 1988.

In 1989 the Corporation consumed 70.5 million litres of diesel fuel providing heat and power to 13,000 customers. In order to reduce fuel consumption, and the impact on the environment, we added a hydro unit, installed over 80 new fuel-efficient engines, and will be converting our Inuvik plant from diesel to natural gas, which has less harmful by-products. In 1998 the corporation consumed only 68.8 million litres of diesel fuel, less than we used in our first year, to supply power to a customer base which has grown 35 percent. Where feasible, we are working with communities to harness and distribute to nearby buildings the residual heat produced by our diesel engines, displacing conventional heating methods.

We have a ten-year plan for the future, built on continuing improvement to service and investment in our people, along with vigorous pursuit of opportunities in the mining sector. We've made contributions to community and youth betterment through a modest, but expanding program of donations and sponsorships. We're backing the Arctic Energy Alliance, a multi-faceted group of NWT consumers and suppliers committed to better energy management and lower cost.

On behalf of the Board of Directors and the Officers of the Corporation I want to thank all of our employees past and present who have made the last 50 years and especially the last 10 years as a fully territorial utility such a success. Our predecessors brought power and light to a cold and dark territory. We will continue to strive to fulfill our Mission.

Leon Courneya, CA
President & CEO
May 22, 1998

When dignitaries and guests assembled in 1948 to open the NWT Power Commission's first Snare River power unit, they likely had little idea of where the new utility would be 50 years later. History shows they laid the corner-stones for power service all the way from Yukon in the west to Iqaluit in Nunavut. Iqaluit's 1960s-vintage engine room is shown at left.

Board of Directors
(at March 31, 1998)

The Corporation's affairs are overseen by a Board of Directors, the majority of whom are residents of the Northwest Territories and customers of the Corporation. The directors oversee the development, adoption and implementation of the Corporation's strategies.

Standing, from left: Vice President, Finance, Christine Jackson; Financial Advisor, Fred Abbott; Board Member, Gordon Stewart; Director, Personnel, Derek Aindow; Chairman, Pierre Alvarez; Director, Internal Audit and Environmental Affairs, Andy Nelson; Vice President, Operations, Rick Blennerhassett; Board Member, Rod Hardy; Technical Advisor, Ted Humphrys; Corporate Secretary, Jeannee Johnson.

Sitting, from left: Director, Corporate Development, Bill Braden; Board Member, John Parker; Board Member, Charlie Evalik; Vice Chairman, Simon Merkosak; President and CEO, Leon Courneya; Director, Information Systems, John Locke.

Committees of the Board:

Audit & Efficiency Committee
- *G. Stewart, Chairman*
- *P.R. Alvarez*
- *C. Evalik*
- *R. Hardy*
- *T. Zubko*
- *F.F. Abbott, Advisor*

Governance & Compensation Committee
- *J.H. Parker, Chairman*
- *P.R. Alvarez*
- *S. Merkosak*
- *T. Zubko*

Officers of the Corporation:

Pierre R. Alvarez
Chairman

Leon Courneya, CA
President & Chief Executive Officer

R.A. Blennerhassett, P. Eng
Vice President, Operations & Chief Engineer

Christine A. Jackson, CA
Vice President, Finance & Chief Financial Officer

Derek Aindow
Director, Personnel

Robert Blowers
Director, Materials Management

Bill Braden
Director, Corporate Development

Pun Chu, P. Eng
Director, Western Operations

Axel Have, P. Eng
Director, Nunavut Operations

W. Jeannee Johnson
Corporate Secretary

John Locke
Director, Information Systems

Diana Moes, CMA
Director, Finance

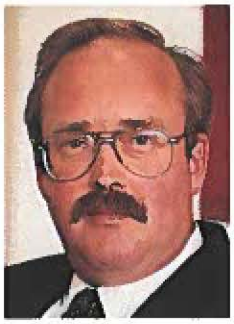
J. Andrew Nelson
Director, Internal Audit & Environmental Affairs

Dan Roberts, P. Eng
Director, Central Operations

Gerd Sandrock, P. Eng
Director, Engineering

Howie Thomas
Manager, Regulatory Affairs

President's Message



Leon Courneya, CA
President & CEO

The economy in the North is changing. Government is down sizing and decentralizing, federal funding regimes are changing, and the Northwest Territories will divide and become two new territories on April 1, 1999. The price of gold hovers at $300US per ounce affecting or stopping production at four NWT mines. The Corporation has had to react to these changes as their effect on sales was felt early in the year.

Our efforts allowed us to essentially meet our profit and return targets for 1997/98. However this will not be the case in 1998/99, as our market continues to shrink. Adjustments that we were able to make last year, for example, deferring engine overhauls, cannot be sustained without jeopardizing the reliability of service to our customers.

Also, indications are that 1998/99 will be a low water year on the Snare/Yellowknife system. While the Stabilization Funds set up during the last General Rate Application (GRA) will protect customers from large rate increases, low water levels will impact our operations.

Even though the Corporation is facing a fundamental market change - from sustained growth 10 years ago to decreasing sales today - we will not apply to the Public Utilities Board (PUB) to adjust rates to deal with the lost revenue and income. Instead, like the customers we serve, we are tightening an already tight belt and setting our 1998/99 targets below a full return on equity.

This will allow both our customers and ourselves time to finalize the re-balancing of rates to reflect the full cost of service to each community, and allow time for our markets to stabilize. On the upside, we are encouraged by the diamond mining development taking place just north of Yellowknife and we are making every effort to develop new markets in conjunction with this opportunity.

Looking to the next decade, providing power in one of the largest service areas in the world, we are challenged to meet the demands of a harsh climate and difficult transportation logistics. It will not be easy but it will be exciting. In addition to our unique operating environment, we will face market uncertainty, driven by factors such as the unknown future of the gold mines, the impact of diamond mining and the impact of Division on the Territories.

Operational Results

The past year, 1997/98, was the final year of the three-year GRA term. As planned, we should have had few problems meeting our targeted return on equity (ROE) of 11.5%. However, drastic changes in the market from 1996 forecasts, coupled with the warming effect of El Nino, caused 1997/98 to be a very difficult year.

Sales were 8.5% below GRA forecasts, and down 2% from 1996/97. We expect a further 2.2% decrease in 1998/99. It was only through the extra effort of all the staff and some one-time gains that we were able to earn $10.5 million or 11% ROE, just 0.5% off target.

Strategic Plan

To help guide us into the next 10 years we have developed a new Strategic Plan. In formulating this plan we have also updated our Mission Statement. We have adopted a new Vision Statement and Statement of Core Values, which emphasize our commitment to safety, reliable service and the environment, while operating in a business-like manner.

Our Strategic Plan calls for expansion of our market through diversification into supply of alternative energy, such as residual heat. Over the next five years, growth in residual heat projects will be significant, with 30-35 projects planned in our operating area. We completed two small residual heat projects in 1997/98. A larger project in Pangnirtung is expected to be completed in 1998/99. Four more projects are in the design stage for the following year.

Yellowknife Mines

Our two industrial customers in Yellowknife, Royal Oak Giant Mine and Miramar Con Mine, are affected by low gold prices. This has caused Miramar to severely cut back on production, which translates into lower power requirements. This is the principal reason for a continued decline in sales in Yellowknife. At this writing, Miramar employees have been on strike for two months. During the strike, the Corporation will purchase power from Miramar's Bluefish hydro facility.

Committed to the Environment

The Corporation is committed to the environment and we have added this area of concern to our new Mission Statement. The five-year site assessment program that we began last year is progressing. We have assessed 28 sites so far, with follow-up work completed on a number of these. We have invested over $1 million to date on this program.

We continue to work closely with environmental regulators and have initiated talks with the federal government regarding their fiduciary responsibility for the environmental condition of sites operated by the Northern Canada Power Commission. We are in regular contact with the communities to ensure that they are informed of the status of our assessments.

The Corporation has committed to be a partner in the Climate Change Program Voluntary Registry. Our action plan will outline how the Corporation will work to reduce emissions to 1990 levels, in accordance with the United Nations Framework Convention on Climate Change signed by Canada at the Kyoto Conference.

In December, 1997, the Corporation signed a 15-year contract with the Inuvialuit Petroleum Corporation for the purchase of natural gas beginning in July 1999. When this project is completed we will significantly reduce our reliance on diesel fuel. The project will allow us to produce power at a lower cost using a cleaner, more environmentally friendly fuel.

Regulatory Matters

Despite the downturn in sales, the Corporation has no plans of applying for another GRA before the year 2000/01. The only rate changes in the next year will result from rate rebalancing, to implement a 1997 decision of the Public Utilities Board on community based rates.

Training

In the past year, we completed our Plant Operator and System Operator training courses and follow-up training to ensure our operators continue to operate safely and efficiently. Regular upgrading has been set as part of the newly adopted Strategic Plan.

We have also continued the training for our Line Crews. The second annual Pole Top Rescue Competition was a lot of fun for all the competitors and spectators, and allows for additional training. We will continue to expand our efforts in all areas of training to ensure employees operate safely and efficiently for the benefit of our customers.

Division

The Division of the Northwest Territories is less than a year away. The Corporation and its shareholder, the GNWT, remain committed to the Continuance Plan, which will maintain a single corporation to provide safe, reliable electrical service to both territories at the lowest

50 YEARS

Linking the Growing North

Providing service to 54 communities, dotted over 3.4 million square kilometres, means today's Power Corporation depends more than ever on reliable transportation links. The utility stills depends on smaller "bush" planes (like this de Haviland Otter at the Taltson hydro construction camp in 1963) to ferry people and parts around the North.

The Corporation today uses rail, air, marine and summer and winter road routes to move thousands of tonnes of material, and tens of millions of litres of fuel, to its far-flung plants.

possible cost, with the least impact on the work force. The plan supports continuation of the sound business practices followed by the Corporation for the last 10 years.

While the principles of the Plan have support from both Nunavut and the Western NWT, there are differences on how to govern and manage the affairs of a jointly-owned Corporation. At this writing, negotiations are under way with the help of a facilitator.

Dividend

The Corporation's dividend continues to rise. The current dividend represents an increase of 7% over last year to $6.3 million. At this level, dividends represent 60% of net income - equal to conventional levels for privately owned companies. The dividend is paid at the direction of the GNWT, which has used the dividend to subsidize electrical rates across the Territories.

If there is no change in how the dividend is calculated it is forecast to rise to over $8 million in a few years. This will leave the Corporation with little to reinvest, and will erode our ability to maintain reliable service. The Board of Directors continues to advise the Government that continued growth in the dividend will impact the financial viability of the utility.

Personnel and Board Changes

1997/98 was a year of changes for the Board of Directors of the Corporation. Vice-Chairman Ron Williams resigned to accept the position of Deputy Minister of Transportation with the GNWT. Charlie Evalik of Cambridge Bay and Tom Zubko of Inuvik were appointed to the Board in September 1997.

In December 1997, I assumed the duties of Chief Executive Officer from Chairman Pierre Alvarez. With the senior management team, led by Christine Jackson, Vice President, Finance & CFO, and Rick Blennerhassett, Vice President, Operations and Chief Engineer, we will continue to action the Strategic Plan and address the challenges of 1998/99.

Leon Courneya

Leon Courneya, CA
President & CEO
May 22, 1998

Heading North: The Move to Hay River

When the NWT Government purchased the Corporation in 1988, **only 14 of the 100 employees at the Edmonton head office took up the challenge to come North. Rebuilding the head office staff (to its present complement of 80) took two years.**

This photo, taken in 1995, celebrates some of those pioneers. From left: Romy Lapak, Joe Staszuk, Irene Maltais, Martin White, Jim Robertson (founding chairman) Bill Bourque, Sid Coulas, Andy Nelson and Bob Blowers.

Management Discussion & Analysis

Christine A. Jackson, CA
Vice President, Finance & CFO

The following Discussion & Analysis is intended to provide an historical and prospective analysis of the Corporation with 1997/98 Financial Performance as the primary focus. These comments should be read in conjunction with the Consolidated Financial Statements included in this report.

Results of Operations

The NWT Power Corporation's net earnings for 1997/98 were $10.5 million, an increase of $1.4 million over 1996/97. A decrease in revenues of $2.3 million was offset by decreased expenditures of $3.7 million.

Energy Sales

Energy sales decreased 8,950 MWh (2.0%) in 1997/98 (sales for 1997/98 totalled 429,703 MWh) from 1996/97. More than half of this decline is a result of reductions in mining activities in the Yellowknife area, in the last quarter, and the spin-off effect that has had on domestic and commercial sales in the area. In addition, volumes were affected by a warmer than average winter, across the Territory.

This decrease in volumes was offset, in part, by rate increases which went into effect in July 1997. Revenues were further reduced by the shift in customer base from Government to Non-Government.

If the 1996/97 revenue had not included a rate rider, totalling $2.4 million to recover the costs of burning extra fuel as a result of low water in 1995/96, in the Yellowknife area, we would have achieved an increase in revenue of $2.0 million. As it is, revenue decreased by $0.4 million from 1996/97.

Energy sales for 1998/99 are forecast to be 420,212 MWh, a reduction of 2.2% over 1997/98. This further loss of sales primarily reflects the reductions in the mining industry over a 12 month period. Events subsequent to the preparation of the load forecast, such as the mining strike, have not been reflected in the forecast, as their effect on sales is indeterminable at this time.

Expenditures

Fuel and purchased power expenditures decreased $5.8 million from 1996/97 partially due to the additional $2.3 million in fuel costs related to low water reported in 1995/96 and partially due to decreased demand in 1997/98. The cause of the disproportionate savings in fuel as compared to the decrease in sales (due to volume) is related to the fact that where hydro and diesel are used in combination to supply power, drops in demand reduce diesel generation first. Fuel expenditure is not influenced by price, as fuel stabilization funds have been established to smooth the effect of price fluctuations. Fuel expenditures were also affected by a deferral of Snare Cascades expenditures. The Snare Cascades deferral account was established to ease the impact on utility rates resulting from the Snare Cascades project being added to the rate base. The deferral for 1997/98 totalled $1.0 million.

Salaries and wages increased by $0.9 million from the prior year. The Corporation negotiated

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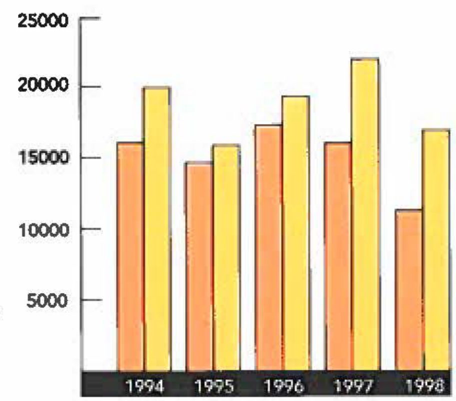
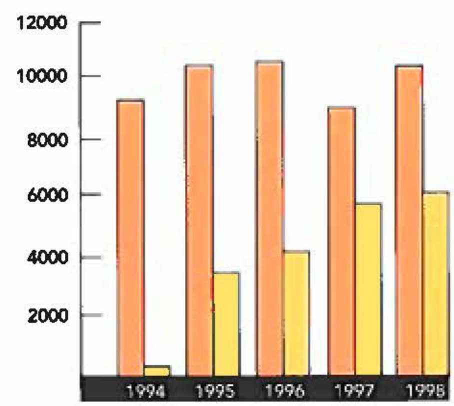
Capital Expenditures/ Cash Flow
($000s)



Capital Expenditures on Property & Equipment
Cash Flow from Operating Activities

Net Earnings/ Dividends
($000s)



Net Earnings
Dividends

Northwest Territories Power Corporation Financial Statements

March 4, 1998

Pierre R. Alvarez
Chairman
Northwest Territories Power Corporation

1996-97 Dividend Payment

Pursuant to the Northwest Territories Power Corporation Act (Section 29), subject to the Public Utilities Act and to the direction of the Executive Council, the Northwest Territories Power Corporation is required to declare dividends for the purpose of funding the Government of the Northwest Territories Power Subsidy Program. The required dividend is $6,260,945, representing the 1996-97 fiscal year cost of the subsidy program.

Please ensure an appropriate dividend resolution is passed by the Power Corporation's Board of Directors no later than March 31, 1998.

Charles Dent

Charles Dent

cc: Hon. John Todd
Minister Responsible for the Public Utilities Board

John Hill
Chairman, Public Utilities Board

Leon Courneya
President & CEO, NWT Power Corporation

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements were prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories Power Corporation is regulated by the Public Utilities Board of the Northwest Territories, which also examines and approves its accounting policies and practices. Consolidated financial statements include certain amounts based on estimates and judgements. 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 internal 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. The Corporation's 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 his opinion on the consolidated financial statements. He also considers whether the transactions that come to his notice in the course of this audit are, in all significant respects, in accordance with the specified legislation.

The Board of Directors appoints certain of its 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

Leon Courneya, CA
President & CEO

Christine Jackson

Christine A. Jackson, CA
Vice President, Finance & CFO

Hay River, NT, May 22, 1998

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, 1998 and the consolidated statements of earnings and retained earnings, and changes in financial position 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 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, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with 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.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada, May 22, 1998

Northwest Territories Power Corporation Financial Statements

Consolidated Statement of Earnings and Retained Earnings

for the year ended March 31, 1998, ($000's)

	1998	1997
Revenues		
Sale of power	$ 93,809	$ 95,255
Sale of heat	2,918	4,124
Other	3,381	3,213
	100,108	102,592
Expenses		
Fuel and lubricants	28,118	33,963
Salaries and wages	23,165	22,311
Supplies and services	14,178	14,615
Amortization of capital assets	8,217	7,111
Travel and accommodation	3,050	3,208
Amortization of deferred charges (Note 7)	602	690
	77,330	81,898
Earnings from operations	22,778	20,694
Allowance for funds used during construction	284	450
Interest income	3,327	2,935
	3,611	3,385
Earnings before interest expense	26,389	24,079
Interest expense (Note 4)	15,879	14,973
Net earnings	10,510	9,106
Retained earnings at beginning of period	53,848	50,596
	64,358	59,702
Dividend (Note 5)	6,261	5,854
Retained earnings at end of period	$ 58,097	$ 53,848

See accompanying notes

Northwest Territories Power Corporation Financial Statements

Consolidated Statement of Changes in Financial Position

for the year ended March 31, 1998 , ($000's)

	1998	1997
Cash provided by (used for)		
Operating Activities		
Net Earnings	$10,510	$9,106
Items not requiring an outlay of funds		
Amortization expense	8,819	7,801
Amortization of deferred fuel	-	2,434
Allowance for funds used during construction	(284)	(450)
	19,045	18,891
(Increase) decrease in operating working capital	(1,007)	3,940
Decrease in Capital Replacement Reserve Fund	(624)	(151)
Expenditures on site restoration	(371)	(628)
Cash from operations	17,043	22,052
Investing Activities		
Expenditures on property and equipment	(11,387)	(42,477)
Proceeds on disposal of property and equipment	233	402
Increase in deferred charges and other assets	(2,013)	(1,018)
Increase in loan receivable	-	15,911
(Decrease) increase in net obligation of lease	(548)	3,464
	(13,715)	(23,718)
Financing Activities		
Proceeds from short term debt	4,810	-
Repayment of long term debt	(5,520)	(5,752)
Proceeds from long term debt	375	9,000
Sinking fund instalments	(2,661)	(1,437)
Dividend	(6,261)	(5,854)
	(9,257)	(4,043)
Decrease during the period	(5,929)	(5,709)
Cash and short-term investments at beginning of period	6,864	12,573
Cash and short-term investments at end of period	$ 935	$ 6,864

See accompanying notes

Northwest Territories Power Corporation Financial Statements

Consolidated Balance Sheet

as at March 31, 1998 ($000's)

Assets

	1998	1997
Current Assets		
Cash and short-term investments	$ 935	$ 6,864
Accounts receivable	15,859	16,663
Prepaid expenses	1,199	782
Inventories	15,485	14,351
	33,478	38,660
Property and equipment (Note 6)	224,397	220,179
Deferred charges and other assets (Note 7)	3,910	2,508
Sinking Fund (Note 8)	5,585	2,924
	$ 267,370	$ 264,271

Liabilities and Shareholder Equity

	1998	1997
Current liabilities		
Bank indebtness and short-term debt	$ 4,810	$ -
Accounts payable and accrued liabilities	13,377	13,532
Capital Replacement Reserve Fund (Note 10)	2,583	3,207
Current portion of long-term debt (Note 11)	5,538	5,520
Dividend payable	6,261	5,854
	32,569	28,113
Long-term debt		
Long-term debt (Note 11)	119,774	124,937
Net lease obligation (Note 9)	2,916	3,464
	122,690	128,401
Deferred credits and other liabilities (Note 12)	10,885	10,780
Shareholder's equity (Note 13)	101,226	96,977
	$ 267,370	$ 264,271

Commitments (Note 14)

Approved on behalf of the Board:

Pierre R. Alvarez
Chairman

Gordon Stewart
Director

See accompanying notes

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

1. Authority and Operations

The Corporation operates under the authority of the Northwest Territories Power Corporation Act and the Financial Administration Act and is a Crown corporation of the Government of the Northwest Territories.

The Corporation operates diesel and hydroelectric production facilities to provide utility services on a self-sustaining basis in the Northwest Territories. The Corporation is regulated by the Public Utilities Board of the Northwest Territories (PUB).

The Corporation is exempt from income tax.

Division of Territory

The Government of the Northwest Territories has entered into an agreement to divide the Northwest Territories into two separate territories, effective April 1, 1999. The Corporation has proposed that it will remain one company, serving two territories, after the division. Shares in the Corporation will be split between the two governments. No agreement has been reached and the full impact of division has not been determined.

2. Accounting policies

A summary of the significant accounting policies follows:

Consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Corporation and its wholly-owned subsidiaries NWT Energy Corporation Ltd., and 923204 N.W.T. Ltd.

NWT Energy Corporation Ltd., under the authority of the Northwest Territories Power Corporation Act, provided construction and project financing to the Dogrib Power Corporation for the construction of a 4.3 MW hydro facility on the Snare River which commenced operation August 1996. 923204 N.W.T. Ltd. has a 50% Joint Venture in Aadrii Ltd., a company that owns and operates a district heating system in Fort McPherson, NWT.

Revenue

Utility revenues are recognized on the accrual basis and include an estimate of services provided but not yet billed.

Cash and short-term investments

The Corporation invests in a conservative short-term investment fund which is restricted to investments of very low risk. Investments earned an average of 5% interest.

Inventories

Fuel and lubricants are valued at the lower of average cost and net realizable value. Materials and supplies are valued at the lower of cost and replacement cost.

Northwest Territories Power Corporation Financial Statements

Property and equipment

Property and equipment, excluding that donated to the Corporation, is recorded at original cost and includes materials, direct labour and certain overhead costs associated with the project. Capital costs include an allowance for funds used during construction which provides for a return on capital at a rate approved by the PUB.

Property and equipment donated to the Corporation are recorded at their estimated fair value less accumulated amortization.

Amortization

Amortization of property and equipment is provided on the straight-line average group useful life basis, at rates which are approved by the PUB and which include a provision for future removal and site restoration costs, net of salvage value. The provision for future removal and site restoration costs, net of salvage value, is based on estimates which, by their nature, are subject to measurement uncertainty.

On retirement or sale of assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs. Gains or losses arising from exceptional circumstances are included in earnings.

Amortization rates are as follows:

Electric Power Plants	1.3 - 5.0%
Transmission and distribution systems	1.9 - 5.0%
Buildings and equipment	2.6 - 9.9%
Other utility assets	5.0%
Other	20.0%

Deferred charges

Financing costs relating to the issue of long-term debt are amortized on a straight-line basis over the remaining term of the related debt. Regulatory costs are amortized on a straight-line basis over a period not exceeding three years. The Reserves for Injuries and Damages are deferred costs representing emergency repairs to equipment which have not been included in the rate base.

The Snare Cascades deferral account was established to ease the impact on utility rates resulting from the Snare Cascade project being added to the rate base. The additional costs of the asset, net of savings from displaced diesel generation, are deferred for five years, to be amortized over the following ten years.

Sinking Fund

The Corporation records sinking fund investments at par value. The difference between the cost and the par value of each investment is recorded as a premium or discount and is amortized over the remaining life of the investment. Any gain or loss on early disposal is credited or charged to operations.

Capital Replacement Reserve Fund

The excess of revenues over expenditures, in the operation of the Inuvik Water and Sewer system are placed in the Capital Replacement Reserve Fund. Capital expenditures of the utility are charged against this fund.

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

Deferred credits

Deferred credits reflect donations of assets and contributions to aid in the construction and acquisition of property and equipment, and are amortized on the same basis as the related property and equipment.

Pension plan

Contributions are made by the Corporation and its employees to the Public Service Superannuation Plan administered by the Government of Canada. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Stabilization Funds

In January 1997, the PUB approved the establishment of water and fuel stabilization funds to mitigate the impact on utility rates of unexpected changes in fuel prices, changes from average water levels and fluctuations in hydro generation. The balance in the fund is accounted for by excesses and deficiencies, which accumulate until specified limits are reached, at which time rates are increased or decreased to bring the fund to anticipated levels.

3. Regulatory matters

The Corporation is regulated by the PUB, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation, and service area. The PUB may award interim rates, subject to final determination.

4. Interest expense

	1998	1997
Interest on long-term debt:		
Sinking Fund debentures	$ 9,600	$ 9,576
Capital lease	2,603	1,676
Debentures	2,370	2,029
Promissory note	724	1,313
	15,297	14,594
Other interest	582	379
	$15,879	$14,973

Northwest Territories Power Corporation Financial Statements

5. Dividend

Pursuant to the Northwest Territories Power Corporation Act, the Government of the Northwest Territories directed the Corporation to declare a dividend of $6,261 (1997-$5,854).

6. Property and equipment

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Electric power plants	$262,261	$ 99,125	$163,136	$162,064
Transmission and distribution systems	70,182	25,994	44,188	41,604
Warehouse, equipment, motor vehicles and general facilities	25,036	13,159	11,877	10,080
Other utility assets	3,397	2,137	1,260	657
Other	3,905	3,005	900	246
	364,781	143,420	221,361	214,651
Construction work in progress	3,036	–	3,036	5,528
	$367,817	$143,420	$224,397	$220,179

1998 accumulated amortization includes a provision of $46,456 (1997 - $45,400) for future removal and site restoration costs.

Engineering and general administration expense capitalized during the year amounted to $1,583 (1997 - $1,889).

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

7. Deferred charges and other assets

	1998	1997
Reserve for Injuries and Damages	$1,178	$ 345
Snare Cascades Deferral Account	1,063	31
Financing costs	591	677
Other	407	216
Housing loans receivable	360	490
Regulatory costs	311	749
	$3,910	$2,508

The amortizaton of other deferred charges totaled $602 (1997 - $690).

8. Sinking fund

Sinking funds are held by the Trustee and they require annual minimum installments for the redemption of long-term debt. Sinking funds consist of securities and short-term investments issued or guaranteed by the municipal, provincial, or federal governments of Canada, and paper issued by approved banks. Sinking fund income is recorded as interest income.

The sinking fund balances at the balance sheet date include the following investments at their carrying value:

	1998		1997	
	Carrying Value	Weighted average effective rate	Carrying Value	Weighted average effective rate
Provincial Government guaranteed	$3,213	5.89%	$2,384	5.67%
Bank paper	1,732	5.08%	-	-
Federal Government guaranteed	520	7.72%	476	7.37%
Cash & short-term investments	71	0.03%	16	0.03%
Municipal Government guaranteed	49	8.38%	49	8.38%
	$5,585	5.76%	$2,925	5.97%

Fair value information for sinking funds is included in Note 16.

Northwest Territories Power Corporation Financial Statements

9. Net Lease Obligation

The NWT Energy Corporation Ltd. loaned funds in 1994/95 through 1996/97 to the Dogrib Power Corporation to finance the construction of a hydroelectric generating plant on the Snare River in the Northwest Territories. The balance of the loan receivable is $22,773 (1997 - $22,878).

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 will be repaid over a 30 year period which commenced in August 1996, with monthly payments including interest, of $195. The loan is secured by a charge against the plant and the lease agreement.

Upon completion of construction in August 1996, the NWT Power Corporation leased the plant from the Dogrib Power Corporation for 65 years. The value of the capital lease obligation is $25,689 (1997 - $26,342).

To reflect the effective acquisition and financing nature of the lease, the plant is included in electric power plants in property and equipment at a 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 $2,916 (1997 - $3,464).

10. Capital Replacement Reserve Fund

This amount represents funds held for capital repairs to the utilidor system in the Town of Inuvik.

Expenditures are made upon the approval of the Inuvik Utilities Planning Committee, which consists of representatives of the Town of Inuvik, the Department of Municipal and Community Affairs of the Government of the Northwest Territories, and the Corporation. During the year the fund earned $118 (1997-$137) of interest at rates ranging from 3.4% to 5.1% (1997 - 3.4% to 5.3%).

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

11. Long-term debt

	1998	1997
Promissory note to the Government of the Northwest Territories, repayable in ten equal annual installments of $5,350 maturing June 23, 1998, bearing interest at 11% payable semi-annually	$ 5,350	$ 10,700
11% sinking fund debentures, due March 9, 2009	20,000	20,000
11 3/8% sinking fund debentures, due June 6, 2011	15,000	15,000
10 3/4% sinking fund debentures, due May 28, 2012	20,000	20,000
9 3/8% sinking fund debentures, due May 12, 2014	20,000	20,000
8.41% sinking fund debentures, due February 27, 2026	20,000	20,000
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of $70	7,838	7,891
9 3/4% debenture series 2, due October 1, 2025 repayable in monthly equal payments of $69	7,856	7,910
9.11% debenture series 3, due September 1, 2026 repayable in monthly equal payments of $73	8,893	8,956
6.5 % Canada's Northwest Territories Government Aurora Fund (1996) 923204 N.W.T. Ltd.'s portion representing 50%	375	-
	125,312	130,457
Less: Current portion	5,538	5,520
	$119,774	$124,937

All debentures are unconditionally guaranteed by the Government of the Northwest Territories.

Northwest Territories Power Corporation Financial Statements

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

	Principal Repayments	Sinking Fund Requirements
1999	5,538	2,113
2000	202	2,827
2001	227	2,833
2002	249	2,836
2003	649	3,046

12. Deferred credits and other liabilities

	1998	1997
Deferred credits	$ 9,509	$ 9,042
Employee termination benefits	1,336	1,144
Rate Stabilization Funds		
Diesel	(788)	310
Hydro	828	284
	$10,885	$10,780

Termination benefits are earned by certain employees as a condition of their employment, and are based upon years of service.

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

13. Shareholder's equity

	1998	1997
Capital Stock Authorized: unlimited number of voting common shares without par value		
Issued: 431,288 common shares	$ 43,129	$ 43,129
Retained earnings	58,097	53,848
	$101,226	$96,977

14. Commitments and contingencies

Capital projects

The estimated cost to complete capital projects as at March 31, 1998, was $9,100 (1997-$5,420).

Operating leases

The Corporation has leased property and equipment under various long-term operating leases. The minimum annual payments for these leases are as follows:

1999	$ 862
2000	552
2001	376
2002	116
2003	40
2004-2021	160
	$ 2,106

Supply contracts

The Corporation has entered into contracts to purchase refined oil products. The contracts extend to October 1998, reflect minimum purchase commitments consistent with the Corporation's operational requirements, and are based on market prices.

Northwest Territories Power Corporation Financial Statements

Loan Guarantee

The Corporation has guaranteed a loan made by the Aurora Fund to Aadrii Limited in the total amount of $750. This guarantee has been made jointly and severally with another party.

Natural Gas Purchase Commitment

The Corporation has entered into an agreement to purchase natural gas to supply Inuvik with fuel for production of electricity. The minimum obligation is to purchase 5,622,900 m^3 of natural gas per annum for the next 15 years, beginning on July 1, 1999. The future price shall be calculated annually on the anniversary of the Initial Delivery Date and will depend on the Edmonton Average Unbranded Regular Diesel Price as posted in the Bloomberg Oil Buyers Guide on the anniversary date.

Canada Shipping Act

Amendments to the Canada Shipping Act require owners of Oil Handling Facilities to develop policies and procedures and provide resources to cope with potential oil spills during the off-loading of petroleum products from a marine vehicle. The Corporation is jointly developing a plan of action for compliance with Petroleum Products Division and total costs are not known at this time. The legislation is effective September 1999.

Yellowknife Transmission Line

During the winter of 1996/97, a routine line patrol of the transmission line from the Snare Hydro sites to Yellowknife found a sag problem. The Corporation intends to conduct testing in 1998/99 to determine if and to what extent this problem prevails. Until the testing is completed, total costs to repair, if any, and recovery of these costs, are indeterminable.

15. Related party transactions

The Corporation is a Territorial Crown corporation and consequently is related to the Government of the Northwest Territories and its agencies and Crown 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:

	1998	1997
Sale of power, heat, water and other	$23,438	$23,445
Purchase of fuel	10,792	10,689
Fuel Tax	2,031	1,948
Other	1,122	1,098
Balances at year end:		
Accounts Receivable	2,516	1,543
Accounts Payable	2,797	2,955

Northwest Territories Power Corporation Financial Statements

Notes to Consolidated Financial Statements

March 31, 1998, ($000's)

16. Financial instruments

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$125,312	$170,480	$130,457	$157,026
Net Lease Obligation	2,916	6,922	3,464	(903)
Sinking Fund	5,585	5,853	2,924	2,950

The fair value of cash and short-term investments and other current accounts receivable and payable, excluding the current portion of loan receivable and long-term debt, approximates the carrying amount of these instruments due to the short period to maturity. The fair value of employee termination benefits approximates carrying value. 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 was determined using market prices.

17.Franchises

Subsection 38(1) of the Public Utilities Act of the Northwest Territories states that no public utility shall operate within a municipality unless the franchise of the public utility has been approved by the PUB.

The Corporation requires franchises for 50 communities. As at March 31, 1998, 35 franchises (1997-32 franchises) have been approved by the PUB, while the remaining franchises are at various stages of the application process.

18.Comparative figures

Certain reclassifications have been made to the comparative figures to conform with the current year's presentation.

Northwest Territories Power Corporation Financial Statements

Schedule of Write-offs

for the year ended March 31, 1998, (unaudited)

The following are those assets, debt or obligations, in excess of $500, that the Corporation has written off in the year pursuant to section 84 of the Financial Administration Act.

Accounts Receivable

Plant	Name	Amount
Aklavik	W. Storr (P&W Trucking)	$ 1,152.49
Clyde River	Pyramid Construction	536.48
Coral Harbour	Eetuk, Amoutah	1,256.20
Deline	Pich, Adam	1,663.05
	Bernies Ltd.	4,251.32
	Reindeer, Sheila	955.06
Fort McPherson	Storr & Sons	9,240.30
Fort Simpson	KMW Ventures	2,927.79
	Sjolie, Doug	575.05
Fort Smith	Benwell, Cynthia	846.86
	Berton, Armando	512.48
	Caribou Trailer Court	1,905.62
	Gray, Bob & Lorraine	706.57
	Maagdenberg, Cees	3,572.83
	Wanderingspirit, Marg & Mills, Rob	1,499.84
	Wanderingspirit, Melvin	556.11
Inuvik	Arctic Memories	1,019.75
	Bernies Drilling	2,004.25
	Carmichael, Fred Jr.	590.78
	Ciboci, Victor	1,934.17
	Jerome, Brenda	841.05
	Kendi, David	627.99
	Larocque, Margaret	584.89
	Louie, Rosalie	2,100.68
	Northrop Investments Ltd.	1,310.40
	Robert, Robert	743.77
Rankin Inlet	Niakok, Harry	2,762.46
Tsiigehtchic	Davic Ltd.	3,599.49
Tuktoyaktuk	Apun Commercial Enterprises	568.34
	Tuktoyaktuk Day Care Society	1,349.28
Yellowknife	Treminco Resources Ltd.	6,349.79
		$ 58,545.14

Cash

Plant	
Fort Simpson	$ 501.94

Northwest Territories Power Corporation Financial Statements

Consolidated Financial Summary

Years Ended March 31

	1998	1997	1996	1995	1994
			$000		
Operating revenue	$100,108	$102,592	$102,355	$103,104	$98,720
Operating expenses	77,330	81,898	82,675	83,399	80,617
Fuel and lubricants expense	28,118	33,963	34,018	36,568	32,065
Interest expense	15,879	14,835	11,736	10,510	9,564
Earnings from operations	22,778	20,694	19,680	19,705	18,103
Net earnings	10,510	9,106	10,665	10,539	9,360
Dividend	6,261	5,854	4,292	3,538	3,480
Expenditures on property and equipment	11,387	42,477	17,443	14,777	16,178
Gross fixed assets	364,781	350,596	305,540	292,142	277,752
Net fixed assets	221,361	214,651	175,077	166,714	160,165
Sales (MW.h)	429,703	438,649	460,540	450,529	442,514
Generation (MW.h)	483,512	493,172	502,513	494,280	501,583
Number of customers	17,123	16,855	16,698	16,243	15,349

Operating Revenues

	1998	1997	1996	1995	1994
Commercial	39.40%	37.80%	38.20%	39.70%	39.30%
Domestic	31.10%	29.00%	29.00%	29.10%	30.00%
Wholesale	16.50%	17.30%	16.20%	16.20%	16.00%
Industrial	6.70%	8.50%	9.90%	9.00%	8.40%
Heat	2.90%	3.20%	2.50%	3.10%	3.70%
Other	3.40%	4.20%	4.20%	2.90%	2.60%
	100.00%	100.00%	100.00%	100.00%	100.00%

Operating Expenses

	1998	1997	1996	1995	1994
Fuel and lubricants	36.40%	41.50%	41.20%	43.90%	39.80%
Salaries and wages	30.00%	27.20%	26.60%	26.20%	27.30%
Supplies and services	18.30%	17.90%	17.10%	16.00%	18.50%
Amortization	11.40%	9.50%	11.30%	10.60%	11.10%
Travel and accommodation	3.90%	3.90%	3.80%	3.30%	3.30%
	100.00%	100.00%	100.00%	100.00%	100.00%

Management Discussion & Analysis

Continued from page 8

a Collective Agreement that lowered the costs of the major benefit components and salaries by 5.5%. These savings were offset by an increase in the labour force. In previous years, a number of Plant Superintendents operated as contractors rather than employees. These Superintendents were made permanent employees in 1997/98. As a result, the Corporation encountered increased costs due to the fact that these employees are now eligible for benefits and wages.

In 1998/99, the Corporation anticipates a potential reduction in the labour force in the Yellowknife Area. If the mines are able to reduce their power consumption as they have forecast, the requirement for diesel generation in Yellowknife will drop sharply. Thus less staffing will be required to monitor, operate and maintain diesel engines. The Corporation's current Collective Agreement with the Union of Northern Workers expires in December 1998 and commencement of bargaining is anticipated for the fall of 1998.

Amortization

Amortization expenditures for capital assets increased by $1.1 million due to increases in Plant & Equipment of $11.4 million, mainly in the areas of Reliability/Capacity and Transmission/Distribution.

Financing Costs

Interest expenditures increased $0.9 million over 1996/97. The increase is a result of increased short-term debt throughout the year (reaching a high of $19.0 million) and a full year of payments on the Snare Cascades lease and long-term debt of $9.0 million. These increases were partially off-set by decreased interest expenditures as a result of principal repayments.

Debt is anticipated to increase by $9.0 million in 1998/99, net of principal repayments, to fund the 1998/99 capital program. In June 1998, the Corporation will make the final $5.4 million payment on the debt to the Government of the Northwest Territories that was carried over from the Corporation's predecessor, the Northern Canada Power Commission.

Liquidity and Capital Resources

Cash Flows in General

Over the past year, the NWT Power Corporation's year-end cash position moved from holding $6.9 million in Cash and Short-Term Investments to holding $0.9 million.

Cash from Operations decreased $5.0 million. This is partially a result of increased investments in Inventory and Prepaid Expenditures. The balance of the change is a result of the recognition, in 1996/97, of deferred fuel expenditures of $2.4 million. This was a non-cash transaction which improved the cash from operations in 1996/97 and contributes to the $5.0 million difference when compared to 1997/98.

The Corporation decreased its investing activities by $10.0 million in 1997/98. In 1996/97 the Corporation spent $26 million on the addition (via capital lease) of a hydro site at

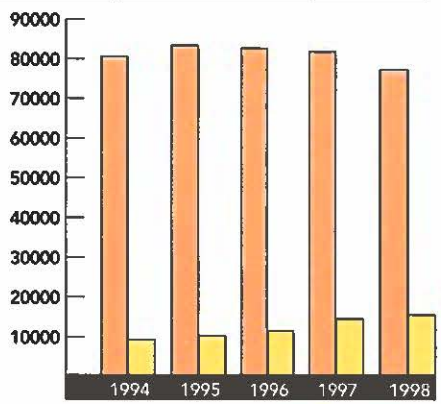
Early Days of Electrical Service

There's been a lot of progress over the past 50 years. Since this 1960 photo of the Frobisher Bay (now Iqaluit) power house, the plant has been moved and continues to expand to meet the needs of the future capital of Nunavut. Since 1988, over $200 million has been invested in improvements to safety, reliability, efficiency and capacity across the Corporation's system.

Snare Cascades to its asset base. This was offset by a loan, in 1996/97 (by the NWT Energy Corporation) to the Dogrib Power Corporation of $15.9 to build the hydro site. The total loan to the Dogrib Power Corporation was $22.9 million. Both the capital lease and the loan to the Dogrib Power Corporation were one-time occurrences spanning the 1995/96 and 1996/97 fiscal years.

Operating Expenses/Interest Expenses

($000s)



During 1997/98, financing activities resulted in a net cash outflow of $9.3 million, whereas in 1996/97 these activities resulted in a net cash outflow of $4.0 million. In 1997/98 the Corporation obtained short-term financing of $4.8 million at an average interest rate of 5.0% and repaid $5.5 million in long-term debt. The Corporation also set aside $2.7 million in Sinking Funds to satisfy long-term debt obligations.

Capital Expenditures

The Corporation expended $11.4 million in Capital Projects for 1997/98. More than $5.8 million of these funds were used to improve reliability and capacity and close to $2.0 million was spent on transmission and distribution projects. The balance of the capital program was spent on safety, environment, and cost savings projects, as well as administration and equipment.

The Capital Program for 1998/99 has been budgeted at $17.5 million, which includes a $3.0 million project in Inuvik in preparation for conversion to natural gas as the fuel source for energy generation.

Key Financial Targets and Ratios

The NWT Power Corporation has identified three key indicators against which to measure corporate performance.

Total Return on Regulated Equity

Total Return on Regulated Equity (ROE) is a measurement of the relationship between profit

Cementing a New Era

With this first cement load in the summer of 1995, the foundation for the Dogrib Power Corporation's Snare Cascades hydro station was started. The $27 million project, financed with help from the NWT Energy Corporation, was also the start of a business alliance with the Dogrib on future power development in the region. NWT Power continues to seek similar alliances with aboriginal and other Northern organizations for energy projects.

and equity invested in the Corporation. The target for 1997/98 was 11.3%. The Corporation achieved a ROE of 11.0%. Our ROE has improved over 1996/97 by 1.1% as a result of the $1.4 million increase in net earnings.

Debt/Debt+Equity Ratio

The Debt/Debt+Equity Ratio measures the amount of debt the Corporation has as compared to the equity invested in the Corporation. The Corporation is striving towards a target of 50 to 55% debt compared to 45 to 50% equity. For the fiscal year 1997/98, we achieved a ratio of 56/44, as compared to 58/42 for 1996/97.

The improvement in the ratio is related to the increase in Retained Earnings of $4.0 million without increasing overall debt.

Plant Efficiency

Plant efficiency measures the number of diesel kWh generated per litre of fuel consumed. This efficiency ratio is instrumental to the setting of rates. The budgeted plant efficiency ratio for 1997/98 was 3.56. Our actual efficiency ratio is 3.57 kWh generation/litre.

Year 2000 Issue

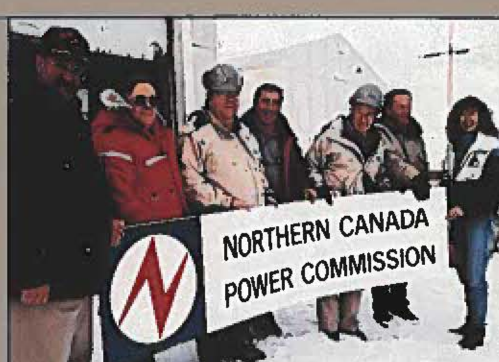
The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

The NWT Power Corporation views the Year 2000 problem as serious and is working to address issues across all of its systems, applications, and operations to be fully compliant by March 31, 1999. We have put together a Year 2000 Task Force, under the authority of the President & CEO, and procedures for investigating and testing all software and devices with embedded logic chips that contain date-dependent code. In addition, we have contacted the vendors of equipment and services we need to operate, to determine the state of their compliance program.

Christine Jackson

Christine A. Jackson, CA
Vice President, Finance & CFO

Old Meets New



On a tour of high arctic communities in 1993, **Corporation board members uncovered a sign of older times at the plant in Resolute. From left: Rick Blennerhassett, (then Manager, Central Operations); Rod Hardy, Board Member; Jim Guthrie, President and CEO; Gordon Stewart, Board Member; Ted Humphrys, technical advisor; Lyle Hawkins and Brenda Clake, Board Members.**

Environmental Report

The Corporation has taken a proactive role in environmental management, including a multi-year assessment program of 56 sites. Here, test holes are dug at the Cambridge Bay fuel tank site.

In 1997/98 the Corporation enhanced its commitment to the environment, through direct reference in the Mission Statement and revision of its Environmental Protection Policy. It requires the Corporation to:

- identify and comply with the Corporation's environmental obligations at law;
- manage risks and implement plans to respond to environmental impacts resulting from the Corporation's operations;
- train and encourage employees to contribute to the success of the environmental program;
- communicate with government, regulators, industry, community groups and the public.

During the year, the Corporation established environmental site guidelines to clearly identify the roles and responsibilities of staff. The guidelines set out action plans and the communication process when environmental issues have been identified.

This was the second year of the Corporation's five-year Environmental Site Assessment Program. Half of the Corporation's fifty-six sites have so far been assessed according to a multi-phase program of research and verification of site contamination. National and territorial standards are applied to this process. Based on results to March 1988, the Corporation has not found any sites where immediate action is required.

Since 1988, the Corporation has been working to remove and properly dispose of all polychlorinated biphenyls (PCBs) from power plant and storage sites. This was completed early in 1997, and in July, Environment Canada declared the last storage site PCB-free.

The Corporation has also been working to reduce greenhouse gas emissions by improving diesel power plant efficiency, testing the viability of wind generation, conversion of the Inuvik plant and developing new systems to utilize residual heat. Waste products such as oils, lubricants and glycol are safely disposed by burning in special incinerators. The Corporation has assisted several private and municipal agencies with the purchase of waste oil furnaces for industrial buildings.

The Corporation knows the success of its environmental program depends on its employees. The Corporation has initiated staff training in hazardous goods and fuel. In the past year alone, more than 700 days of training in efficiency and safety orientation has been invested in plant operators and technicians.

J. Andrew N

J. Andrew Nelson
Director, Internal Audits & Environmental Affairs

Tapping a New Energy Source

Heat from the operation of diesel electric generators is a by-product that can be tapped and sold to buildings near power plants in many Arctic communities. The first such commercial operation started in Fort McPherson in 1995, with a business partnership between the Gwich'in Development Corporation and the NWT Power Corporation. More than 30 other locations in the NWT could be viable for the sale of heat, and would also see substantial reductions in community green house gas emissions. Here, Fort McPherson plant superintendent Louis Cazon and Corporation president Leon Courneya shake hands at the system's official opening.

Operations Report

Rick A. Blennerhassett
Vice President, Operations & Chief Engineer

Safety

The Corporation's objective is to operate with zero lost-time accidents. This is an ambitious objective and an important one to strive for.

Staff completed the year with only three lost-time accidents. They were not considered serious and the rate represents a significant reduction from the previous three-year average of 15 per year. This can be attributed to better safety awareness brought about by the appointment of two new Safety Managers in the field, more staff training emphasizing safe practice, and the increased support of senior management and the Board of Directors.

The two year Operator Training Program was completed in December 1997. A total of 47 Plant Operators, 25 Shift Operators, and six System Operators completed a comprehensive skills upgrading program.

Also during the year, the Safety Managers, working with cross-sectional groups of all employees, rewrote and completely updated the Corporation's Safety Rule Book and Work Protection Code.

Engineering

1997/98 was a pivotal year for the Engineering Group. They underwent a departmental reorganization, hired new professional staff, and implemented new procedures for submitting and controlling capital expenditures.

The department has consolidated all Head Office service groups (Engineering, Operations Support, and the Energy Utilization Group) into one unit organized along functional lines under senior engineering managers. This will enable the group to better serve field operations and provide closer cooperation between the various disciplines.

In conjunction with the Finance Department, new procedures were put in place to better control the capital budget process. Emphasis was placed on enhanced documentation, scoping and estimating of proposed projects, under the co-ordination of a Capital Budget Analyst.

Central Region Operations

The Central Region is located in the Great Slave Lake region and is comprised of diesel plants in Rae Lakes, Wha Ti, and Lutsel K'e along with the Corporation's Snare/Yellowknife, and Taltson hydro systems.

On the Snare/Yellowknife system, water levels were average and all plants, except the Snare Cascades plant, performed to expectations. The Snare Cascades unit was out of service for two months due to a mechanical problem, which was repaired by the unit supplier. The Corporation negotiated an additional two-year warranty on the unit and it was returned to service.

Discussions continued with Yellowknife customers on reliability requirements. The first meeting, in June 1997, reviewed the Corporation's planning criteria for the Snare/Yellowknife system. This included criteria for assessing operational risk associated with

The Snare River gathers its hydro energy from the snow and rain in a vast region that extends well into the Barren Lands north and east of Yellowknife. With four stations already harnessing its power, there is potential for another three upstream units that could serve emerging diamond and mineral development, as well as provide additional capacity for the Yellowknife grid. The Corporation is seeking customers and business alliances to see when and how this clean, renewable energy resource could be put to work.

transmission lines and transformers, as well as Miramar's Bluefish hydro capacity.

Technical integration of the Bluefish facility into the Snare/Yellowknife system continues to be a problem. With Miramar's co-operation, the Corporation installed an improved communication system at the Bluefish site to better monitor the unit's status.

Further communications improvements were also made on the Snare/Yellowknife system. Through the skill and efforts of the Corporation's Telecontrol Technician, John Westergreen, the Snare hydro plants now have modern microwave connections for phone, fax, e-mail and even Internet services, replacing an old voice-only system that actually used the high-voltage transmission line to carry the signal.

Western Region Operations:

The Western Region comprises 18 power plants in the Deh Cho, Sahtu, and Mackenzie Delta areas of the Western Arctic.

1997 saw the successful conclusion of an agreement with the Inuvialuit Petroleum Corporation to purchase a 15-year supply of natural gas for the Inuvik power plant. The Corporation will convert its facilities from diesel fuel to natural gas and will be taking delivery as of July 1, 1999. This project will benefit Inuvik ratepayers by reducing or holding future rate increases, and by reducing the production of emissions from the plant.

Also during the year, arrangements were concluded with existing customers on closing down the high temperature hot water system. Remaining customers will leave the system over a two-year period.

A major study was undertaken of facilities at Deline and discussions are under way with the community to determine the extent and location of any improvements required.

In Fort McPherson, the Corporation's first commercial residual district heat system (a joint venture with the Gwich'in Development Corporation) was officially opened in September 1997. The project has been successful in reducing the community's overall fuel requirements by 12%, and over the long term, will reduce electrical rates as a result of the additional revenue stream. The system will be expanded in 1998 to provide heat to more customers. The Corporation's success with this project has increased interest in this technology in other communities. A territory-wide study, in conjunction with the Department of Public Works and Services, will help determine other communities where residual heat may be provided.

Nunavut Operations

The Nunavut Operating Region encompasses all of the plants in the future territory of Nunavut, including those in the Kitikmeot, Keewatin and Baffin areas.

In Iqaluit, the Corporation continues to monitor the development of community infrastructure as the creation of the new territory draws near. A major replacement and

The annual pole top rescue competition is a valuable training exercise that helps develop skills and safety practice for the Corporation's linemen.

Central Region: Wha Ti

Investing in new technology, fuel efficient engines and plant automation in Wha Ti, and at most other Corporation facilities, has increased reliability while reducing fuel and staff costs.

Nunavut Region: Arviat

A $1 million upgrade of the plant at Arviat will be completed in the summer of 1998. Rick Blennerhassett, vice-president of operations, and Kevin O'Brien, MLA for Kivallivik, visited the plant in 1997.

Western Region: Tulita

One of the six new diesel plants built by the Corporation over the past decade went into service in Tulita in 1996. It was named after Jack Hardy, a pioneering businessman in the Sahtu region.

refurbishment of the electrical systems in the plant has been initiated and will include the installation of new switchgear and control systems in 1998, improving the Corporation's service reliability to the future capital. This will be followed by an upgrade to all of the plant's mechanical and fuel systems in 1999.

In Cambridge Bay, the Corporation's administrative group moved into new offices and the service shops were relocated and refurbished. In Kugluktuk, the Corporation continues to monitor the performance of its two 80 kW wind turbines. In Kugluktuk and Taloyoak, residual heat distribution systems were commissioned to serve community water supply plants.

The Nunavut region was able to assist victims of the January ice-storm in Quebec with the loan of a small portable diesel generator. Shipped from Iqaluit at no cost by First Air, the machine was put into immediate service by the Red Cross at a shelter in Ville de Marieville where it helped some 500 people through the extraordinary event.

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The construction boom in Nunavut includes planning and new construction of transmission lines and customer service in many communities.

Ted Humphrys: Pioneer Power Man

When the original NWT Power Commission started its first hydro plant north of Yellowknife in 1948, one of its first employees was a young engineer named Ted Humphrys. Ted continued to serve the Corporation in various capacities up to 1998, when he retired as technical advisor to the Board and was appointed Chairman Emeritus. In 1993, that first hydro unit was named the Ted Humphrys Power Plant in tribute to his decades of service.