

**NORTHWEST TERRITORIES HYDRO CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013**

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where GAAP permits alternative accounting methods, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories Hydro Corporation (NT Hydro) undertakes activities that are regulated by the Public Utilities Board of the Northwest Territories, which also examines and approves its accounting policies and practices with respect to recovery of assets and expenses. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

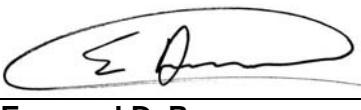
NT Hydro maintains financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, that assets are acquired economically, are used to further NT Hydro's objectives, are protected from loss or unauthorized use and that NT Hydro acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting NT Hydro's affairs in accordance with the requirements of applicable laws and sound business principles, and for maintaining standards of conduct that are appropriate to an Agent of the territorial government. An internal auditor reviews the operation of financial and management systems to promote compliance and to identify changing requirements or needed improvements.

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

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

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

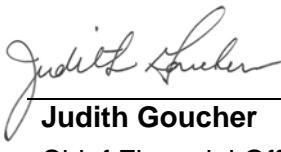
---



---

**Emanuel DaRosa**  
President & CEO

---



---

**Judith Goucher**  
Chief Financial Officer

Hay River, NT  
July 31, 2013



## INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Hydro Corporation

### **Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the Northwest Territories Hydro Corporation, which comprise the consolidated balance sheet as at 31 March 2013, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of shareholder's equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

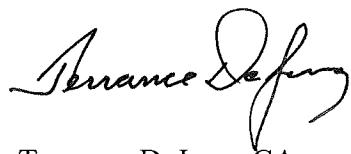
*Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Northwest Territories Hydro Corporation as at 31 March 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Report on Other Legal and Regulatory Requirements**

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

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



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

31 July 2013  
Edmonton, Canada

# NORTHWEST TERRITORIES HYDRO CORPORATION

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

	2013	2012
<b>Assets</b>		
Current assets		
Cash	\$ 2,015	\$ 1,368
Accounts receivable (Note 5)	14,904	18,834
Inventories (Note 6)	5,511	4,162
Prepaid expenses	590	661
Current portion of sinking fund investments (Note 8)	-	20,000
	<u>23,020</u>	<u>45,025</u>
Property, plant and equipment, net (Note 7)	325,363	312,021
Other non-current assets		
Regulatory assets (Note 3)	19,494	18,428
Sinking fund investments (Notes 8, 11)	5,676	5,052
Intangible assets (Note 9)	1,150	1,016
	<u>26,320</u>	<u>24,496</u>
	<u><u>\$ 374,703</u></u>	<u><u>\$ 381,542</u></u>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,071	\$ 22,179
Short-term debt (Note 10)	5,979	16,351
Current portion of long-term debt (Note 11)	2,298	22,184
	<u>23,348</u>	<u>60,714</u>
Long-term debt		
Long-term debt, net of sinking fund investments (Note 11)	180,404	138,379
Sinking fund investments presented as assets (Note 8)	5,676	25,052
Net lease obligation (Note 12)	2,306	2,028
	<u>188,386</u>	<u>165,459</u>
Other non-current liabilities		
Regulatory liabilities (Note 3)	36,153	39,537
Asset retirement obligations (Notes 13, 14)	12,224	7,388
Deferred government contributions (Note 15)	2,678	2,852
Employee future benefits (Note 16)	1,357	1,525
	<u>52,412</u>	<u>51,302</u>
Shareholder's equity	<u>110,557</u>	<u>104,067</u>
	<u><u>\$ 374,703</u></u>	<u><u>\$ 381,542</u></u>
Commitments and contingencies (Note 23)		

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

**Approved on behalf of the Board:**

Brendan Bell, Chairman of the Board

David Tucker, Vice-Chairman

# NORTHWEST TERRITORIES HYDRO CORPORATION

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

	2013	2012
<b>Revenues</b>		
Sale of power	\$ 81,723	\$ 81,690
GNWT power sales contributions (Note 17)	11,600	-
Refundable rider revenues (Note 2)	5,224	-
Government contribution in lieu of fuel riders (Note 3)	-	8,957
Other government contributions (Note 21)	1,312	2,312
Other revenues (Note 18)	1,312	1,468
	<hr/> 101,171	<hr/> 94,427
<b>Expenses</b>		
Fuels and lubricants (including offsetting fuel expenses of \$8,957 (Note 3))	29,379	28,112
Salaries and wages	22,438	21,786
Amortization (Note 19)	18,486	15,225
Supplies and services	12,442	14,101
Travel and accommodation	1,953	2,070
	<hr/> 84,698	<hr/> 81,294
Earnings from operations	16,473	13,133
Snare transmission line damages	-	(1,739)
Cost recovery	-	1,739
Interest income	221	233
Earnings before interest expense	16,694	13,366
Interest expense (Note 20)	10,204	9,174
<b>Income before impairment provision</b>	<b>6,490</b>	<b>4,192</b>
	<hr/> -	<hr/> -
Impairment provision (Note 7)		14,625
Government contributions associated with impairment provision (Note 7)	-	14,185
Net expense	<hr/> -	<hr/> 440
<b>Net income</b>	<b>\$ 6,490</b>	<b>\$ 3,752</b>

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

**NORTHWEST TERRITORIES HYDRO CORPORATION**

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

	<b>2013</b>	<b>2012</b>
<b>Net income</b>	\$ 6,490	\$ 3,752
<b>Other comprehensive income (loss)</b>		
Reclassification adjustment for realized gains on sale of available-for-sale financial assets included in net income		(633)
Unrealized (losses) / gains on available-for-sale financial assets arising during the year	-	112
Other comprehensive loss	-	(521)
<b>Comprehensive income</b>	<b>\$ 6,490</b>	<b>\$ 3,231</b>

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

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

	<b>2013</b>	<b>2012</b>
<b>Share capital (Note 22)</b>	\$ 43,129	\$ 43,129
<b>Retained earnings</b>		
Retained earnings at beginning of year	60,938	57,186
Net income	6,490	3,752
<b>Retained earnings at end of year</b>	<b>\$ 67,428</b>	<b>\$ 60,938</b>
<b>Accumulated other comprehensive income</b>		
Accumulated other comprehensive income at beginning of year	\$ -	\$ 521
Other comprehensive loss	-	(521)
<b>Accumulated other comprehensive income at end of year</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Shareholder's equity at end of year</b>	<b>\$ 110,557</b>	<b>\$ 104,067</b>

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

**NORTHWEST TERRITORIES HYDRO CORPORATION**

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

	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Cash receipts from customers	\$ 90,175	\$ 81,953
Government assistance (Notes 3, 21)	16,635	8,198
Cash paid to suppliers and employees	(83,017)	(64,517)
Interest received	221	233
Interest paid	(11,559)	(12,634)
Cash flows provided by operating activities	<u>12,455</u>	<u>13,233</u>
<b>Investing activities:</b>		
Property, plant and equipment constructed or purchased	<u>(23,636)</u>	<u>(29,131)</u>
Cash flows used in investing activities	<u>(23,636)</u>	<u>(29,131)</u>
<b>Financing activities:</b>		
Proceeds from long-term debt (net of debt issue costs)	24,847	-
Repayment of long-term debt	(22,184)	(16,316)
Proceeds from sinking fund redemption	20,031	15,751
Net (repayments of) proceeds from short-term debt	(10,372)	10,886
Government contributions (Note 15)	(116)	6,079
Sinking fund instalments	(656)	(1,964)
Receipts from net lease obligation	278	216
Cash flows provided by financing activities	<u>11,828</u>	<u>14,652</u>
<b>Net increase (decrease) in cash</b>	<b>647</b>	<b>(1,246)</b>
<b>Cash at beginning of year</b>	<b><u>1,368</u></b>	<b><u>2,614</u></b>
<b>Cash at end of year</b>	<b><u>\$ 2,015</u></b>	<b><u>\$ 1,368</u></b>

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

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### 1. Authority and operation

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

NT Hydro, through its wholly-owned subsidiary NTPC, operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC is a regulated company, established under the *Northwest Territories Power Corporation Act* and controls two wholly-owned subsidiaries: the Northwest Territories Energy Corporation Ltd. (NTEC) and 5383 NWT Ltd. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility (Note 12). NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson (Note 26). 5383 NWT Ltd. is an inactive company.

NT Hydro is also involved in other energy related projects through its subsidiaries NTEC(03) and SEL. NTEC(03) is wholly-owned by NT Hydro and undertakes projects in support of the Shareholder's Energy Plan. Sahdae is wholly-owned by NT Hydro and its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley gas pipeline however with the delays in the pipeline project SEL has been inactive in the past year.

### Consolidation

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

### 2. Significant accounting policies and future accounting changes

#### (a) Significant accounting policies

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

### Rate regulation

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

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

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

On March 23, 2012 NTPC filed a GRA with the PUB for the Test Years 2012/13 and 2013/14. Within this application, NTPC requested the PUB set rates based on a proposed revenue requirement of \$102,500 in fiscal 2013 and \$107,500 in fiscal 2014. The proposed revenue requirement includes a return on equity of 8.5% for the Test Years 2012/13 and 2013/14.

The allowed rate of return and all other aspects of the GRA were reviewed and tested by the PUB in fiscal 2013. On January 21, 2013, the PUB issued Decision 1-2013 which was the initial approval of NTPC's 2012/14 GRA. Decision 1-2013 approved a number of changes to the revenue requirement and normalized costs. The details of these changes to NTPC's normalized costs and treatment of capitalized interest during construction are disclosed in Note 3. The PUB uses cost of service regulation to regulate NTPC's earnings on a return on equity basis. Decision 1-2013 approved a return on equity for fiscal 2013 and fiscal 2014 of 8.5% on assets outside the thermal zone and 0% for thermal zone assets. The approved return on equity will remain in effect until it is reassessed at the time of the next GRA. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

As part of the GRA and Decision 1-2013, NTPC signed a contribution agreement with the GNWT to cover anticipated revenue shortfalls related to its General Rate Application. Contributions will be provided by the GNWT to NTPC to mitigate the impact of rate increases on customers over a three year period. The agreement specifies maximum contributions as follows:

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

NTPC also filed an interim rate application (IRA) with the PUB on March 23, 2012. Since GRAs can take many months to complete, IRAs are designed to implement rates on a temporary and refundable basis while a GRA is reviewed. If the PUB's final decision indicates final rates should be higher or lower than interim rates, a refund or surcharge is applied to customers accordingly. NTPC's IRA proposed rate increases for all customer groups in all communities by 7.0%. On May 7, 2012 the PUB approved the IRA for the fiscal 2013, with interim rates effective for May 1, 2012.

Decision 1-2013 also directed NTPC to file a Compliance Filing Application reflecting the findings, directions and clarification requested in Decision 1-2013. NTPC filed the Compliance Filing on March 4, 2013 and a final decision from the PUB was received on July 9, 2013. See Note 27 for additional details.

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

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

##### **Revenues**

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

##### **Property, plant and equipment and intangible assets**

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

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

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

NT Hydro evaluates its tangible and intangible assets for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

##### **Amortization**

Amortization of property, plant and equipment is taken on the straight-line average group useful life basis, at rates which are approved by the PUB, a portion of which is accounted for as a reserve for future removal and site restoration costs (Note 3). Amortization is suspended when assets are removed from service for an extended period of time. Assets held for future use (critical spare parts) are not amortized until these assets are placed into service, at which time they are reallocated to the appropriate asset group and amortized according to the amortization rates for that group.

The reserve for future removal and site restoration account will be applied to mitigate the impact of asset dismantling and disposal costs and site restoration costs that are not otherwise related to an asset retirement obligation and environmental liabilities as described in Notes 13 and 14.

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

Amortization rates are as follows:

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

Amortization of intangible assets is taken on the straight-line average group life basis at an annual rate of 9.76%.

Amortization rates are reviewed by NTPC and by the PUB every three years as required by legislation. NTPC uses amortization studies and other information and/or testimony to substantiate amortization rate changes. The PUB can direct amortization rate changes and these changes are done on a prospective basis. Cumulative excess or deficient amortization calculated at the time of the review is recognized over a period as prescribed by the PUB. The last general rate application was in the 2008 fiscal year and the last amortization study was in fiscal 2002. NTPC filed a GRA in March 2012 and an amortization study was included as part of that filing. As per Decision 1-2013, rates resulting from that filing and the associated amortization rates are to be effective starting April 1, 2013.

#### Inventories

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

#### Public Service Pension Plan

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

#### Employee future benefits

Under the terms and conditions of employment, employees may earn non-pension benefits for resignation, retirement and ultimate removal costs based on employee start dates, years of service, final salary and point of hire. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service.

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

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

The cost of the benefits reflects management's best estimates using expected compensation levels and employee leave credits. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

#### **Asset retirement obligations**

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

The fair value of the estimated asset retirement obligations is recorded as a liability under other non-current liabilities with an offsetting charge recorded against the regulatory liabilities – reserve for future removal and site restoration as described in Note 3. The liability for asset retirement obligations is increased annually for the passage of time by calculating accretion (interest) on the liability using NT Hydro's credit-adjusted risk-free rate.

NT Hydro has identified some asset retirement obligations for its hydro, thermal transmission and distribution assets where NT Hydro expects to maintain and operate these assets indefinitely. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations for these assets cannot be made at this time.

#### **Environmental liabilities**

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. NT Hydro recognizes environmental liabilities when it is obligated or likely to be obligated to incur such costs and the costs of remediation can be reasonably estimated. Environmental liabilities are discounted for the time value of money and included in asset retirement obligations. NT Hydro reviews its estimates of future environmental liabilities on an on-going basis.

#### **Government contributions**

The contributions approved for purchasing property, plant and equipment are recognized as a deferred government contributions on the balance sheet. Deferred government contributions are amortized into income on the same basis as the amortization of the related property, plant and equipment. Amortization of deferred government contributions are netted against amortization expense in the statement of operations. See Note 15 for additional details.

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

All other government contributions are recognized as revenue in the year the contributions are spent. See Note 21 for additional details.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

#### Measurement uncertainty

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

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

#### Financial instruments

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

##### *Held for trading*

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

##### *Loans and receivables*

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

##### *Other financial liabilities*

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

##### *Other policy decisions:*

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

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

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

##### *Hedging relationships and derivative financial instruments*

NT Hydro may enter into interest rate and commodity swaps to reduce its exposure to fluctuations in interest rates and commodity prices. NT Hydro does not enter into any derivative financial instruments for speculative purposes. As NT Hydro does not account for these contracts using hedge accounting, these instruments are measured at fair value. Depending on the type of derivative, changes in fair value are recognized in either net income or to regulatory deferral accounts. There are no derivative contracts outstanding at the end of the year (2012 – nil).

#### **(b) Future accounting changes**

##### *International Financial Reporting Standards (IFRS)*

Publicly accountable enterprises were required to transition from Canadian GAAP to IFRS for fiscal years beginning on or after January 1, 2011. In February 2013, the CICA Accounting Standards Board (AcSB) extended the existing deferral of the mandatory adoption of IFRS for entities with qualifying rate-regulated activities by an additional year to January 1, 2015.

The extension is due to the International Accounting Standards Board (IASB)'s decision to restart its project on rate-regulated activities. The IASB is also planning to issue an interim IFRS standard on rate-regulated activities by the end of 2013 and the extension will provide first-time adopters of IFRS adequate time to prepare comparative figures based on a new interim IFRS standard.

Although Canadian GAAP and IFRS are based on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact NTPC include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

NT Hydro qualifies for the deferral and intends to adopt IFRS for its fiscal year ending March 31, 2016. NT Hydro also continues to monitor and evaluate the impact of the adoption of IFRS on its accounting policies and systems and financial statements.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### 3. Financial statement effects of rate regulation

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

#### Regulatory assets and liabilities

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

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

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

#### Regulatory assets

	2013	2012	Remaining recovery period
Water licensing deferral account	\$ 5,320	\$ 5,262	Determined by PUB
Normalized overhaul costs	4,634	5,487	Determined by PUB
Regulated employee future benefits	4,498	4,172	Determined by PUB
Reserve for injuries and damages	1,898	2,423	Determined by PUB
Other regulatory assets	1,513	634	Determined by PUB
Regulatory costs	1,170	450	Determined by PUB
Rate stabilization funds	461	-	Determined by PUB
	<u>\$ 19,494</u>	<u>\$ 18,428</u>	

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

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

	<b>2013</b>	<b>2012</b>
Water licensing deferral account	\$ 58	\$ 3,865
Normalized overhaul costs	(1,294)	1,653
Regulated employee future benefits	326	385
Reserve for injuries and damages	(525)	(439)
Other regulatory assets	879	237
Regulatory costs	720	(65)
Rate stabilization funds	461	(3,685)
Reserve for future removal and site restoration	4,973	1,551
Deferred revenues	(1,664)	(586)
Capitalized fuel	(39)	(39)
Equity component of AFUDC	-	1,014
Net increase in net income due to rate regulation	<hr/> \$ 3,895	<hr/> \$ 3,891

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

### Water licensing deferral account

The water licensing deferral account was established in PUB Decision 13-2007. This account is set up to mitigate the uncertainty around the costs to acquire and maintain water licenses associated with the Taltson hydro plant, Bluefish hydro plant and the Snare Hydro system. In Decision 1-2013, the PUB approved \$751 (2012 from 2006/08 GRA - \$137) to be included in annual expenses for this fund. Costs allocated to this account in fiscal 2013 totalled \$809 (2012 - \$4,002). In the absence of rate regulation, GAAP would require that the cost of these events be expensed or capitalized in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$58 (2012 – increase of \$3,865).

### Normalized overhaul costs

Normalized overhaul costs include costs over the life of the assets to overhaul hydro, diesel and natural gas units. In the absence of rate regulation, GAAP would require that major overhauls be capitalized in the year in which they were incurred and amortized to expense over the useful life of the asset while all other overhaul costs are expensed in the year in which they were incurred. In the absence of rate regulation, operational expenses would increase by \$1,137 (2012 - \$2,860) and annual amortization expense would increase by \$505 (2012 - \$486) as a result of an increase in the balance of property, plant and equipment of \$947 (2012 - \$796). In Decision 1-2013, the PUB approved \$2,936 (2012 - \$1,693) to be included in annual expenses for this fund. The balance in the account will depend on the frequency and the cost of overhauls and therefore the recovery period is considered to be indeterminate. In fiscal 2013 actual costs deferred to this account totalled \$2,084 (2012 - \$3,656). The net effect of rate regulation on net income was a decrease of \$ 1,294(2012 – increase of \$1,653).

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

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

##### **Regulated employee future benefits**

Regulated employee future benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 16). In the absence of rate regulation, GAAP would require that the actual cost of these employee future benefits be expensed in the year in which they were incurred. In fiscal 2013 actual costs deferred to this account totalled \$674 (2012 - \$385). In Decision 1-2013, the PUB initiated amortization of this fund for the first time since its inception and approved \$348 (2012 - \$nil) to be included in annual expenses for this fund. The net effect of rate regulation on net income was an increase of \$326 (2012 – increase of \$385).

##### **Reserve for injuries and damages**

The reserve for injuries and damages includes costs for uninsured and uninsurable losses and insurance deductibles. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the types and size of emergencies during a given year. In Decision 1-2013, the PUB approved \$670 (2012 - \$670) to be included in annual expenses for this fund. In fiscal 2013 actual costs deferred to this account totalled \$145 (2012 - \$231). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed in the year they were incurred. The net effect of rate regulation on net income was a decrease of \$525 (2012 – decrease of \$439).

##### **Other regulatory assets**

Other regulatory assets include costs incurred that create a long-term benefit to customers. These costs are subject to recovery from the customers through PUB decisions. In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The remaining recovery period is indeterminate as the amounts deferred to the various accounts depend on what issues arise during the year. The amortization of the various accounts to deferred charges is done on a straight-line basis over periods ranging from 5 to 10 years. Consequently, in the absence of rate regulation, operational expenses would increase by \$1,036 (2012 - \$264) and annual amortization expense would decrease by \$157 (2012 - \$27). The net effect of rate regulation on net income was an increase of \$879 (2012 – increase of \$237).

##### **Regulatory costs**

Regulatory costs include all third party costs and staff overtime, supplies, services and travel NTPC incurs directly related to general rate applications and related regulatory proceedings. In the absence of rate regulation, GAAP would require that the actual regulatory costs be expensed as they were incurred. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the actual regulatory costs NTPC incurs and this will vary from year to year as regulatory issues arise. In Decision 1-2013, the PUB approved \$243 (2012 - \$600) to be included in annual expenses for this fund. In fiscal 2013 actual costs deferred to this account totalled \$963 (2012 - \$535). The net effect of rate regulation on net income was an increase of \$720 (2012 – decrease of \$65).

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

##### Rate stabilization funds

The rate stabilization funds were originally established by the PUB in fiscal 1998 through Decision 1-97 and updated through subsequent decisions. The funds mitigate the impact on utility rates from changes in diesel and natural gas fuel prices as well as fluctuations in hydro generation caused by water levels. The impact of any increases or decreases in fuel prices or hydro generation over the PUB-approved amounts is deferred. The deferred amounts are accumulated until the consolidated balance in the funds reaches +/- \$2,500 and management's judgement deems the recovery (refund) appropriate, at which time rate-riders are applied, with PUB approval, to recover or refund the amounts necessary to bring the funds back to a balance of \$0. The remaining recovery period is indeterminate as the amounts deferred in the account depend on the market price of fuel and water levels on the Snare and Yellowknife river systems. Traditionally, once the PUB-specified trigger limits are reached, the recovery period of the balance of the rate stabilization fund receivable (payable) has been approximately 12 to 24 months.

In the absence of rate regulation, GAAP would require that actual fuel expenses be included in the operating results of the year in which they were incurred. In fiscal 2013 fuel expenses were deferred and consequently higher due to the differences in fuel prices of \$290 (2012 – lower by \$4,830) and lower due to the volume of available water generation of \$739 (2012 – lower by \$383). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$12 (2012 - \$59).

In fiscal 2012 the GNWT made specified contributions of \$8,957 to pay down the balance of the stabilization funds instead of NTPC applying a rate rider to recover the outstanding balance in the funds directly from customers. At the end of fiscal 2012, \$3,856 of this balance was recorded in accounts receivable. In addition to offsetting the balances accumulated in the stabilization funds, these contributions were reported as rider revenue with an offsetting and equal charge to fuel expense in fiscal 2012. There were no similar contributions from the GNWT in fiscal 2013.

The net effect of rate regulation on net income was an increase of \$461 (2012 – decrease of \$3,685).

##### Fuel rider revenues

Fuel rider revenues with offsetting fuel expense:

	2013		2012	
	Rider revenues	Associated fuel expense	Rider revenues	Associated fuel expense
		\$ -		\$ -
GNWT contribution	\$ -	\$ -	\$ 8,957	\$ 8,957
Rate stabilization fund riders	-	-	-	-
	\$ -	\$ -	\$ 8,957	\$ 8,957

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

#### Regulatory liabilities

	2013	2012	Remaining settlement period
Reserve for future removal and site restoration	\$ 29,628	\$ 34,601	Determined by PUB
Deferred revenues	6,525	4,936	Determined by PUB
	<u>\$ 36,153</u>	<u>\$ 39,537</u>	

#### Reserve for future removal and site restoration

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

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

The fund is built up each year based on the following rates and the balance in property, plant and equipment of those asset categories:

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

In the absence of rate regulation, GAAP would require that future removal and site restoration costs would be limited to asset retirement obligations and environmental liabilities and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation or environmental liabilities and the remaining balance in the reserve would be taken into equity. In the absence of rate regulation, NTPC's fiscal 2013 expenses would have been \$1,842 (2012 - \$725) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,961 (2012 - \$1,889) higher than they would be in the absence of rate regulation.

In the absence of rate regulation, GAAP would also require the net change in the balance of asset retirement obligations (Note 13) to be booked to net income rather than to the reserve for future removal and site restoration. The net change in the reserve for future removal and site restoration account balance as a result of changes in the asset retirement obligations and environmental liabilities (Note 14) account balances recorded against the reserve for future removal and site restoration was a

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

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

decrease in the account balance of \$5,092 (2012 – decrease of \$2,715). The net effect of rate regulation on net income is an increase of \$4,973 (2012 – increase of \$1,551).

#### **Deferred revenues**

Deferred revenues reflect contributions to aid in the construction and acquisition of property, plant and equipment. Deferred revenues are amortized on the same basis as the related property, plant and equipment, and the resulting credit is offset against the corresponding provision for amortization of property, plant and equipment (Notes 7 and 19). In the absence of rate regulation, GAAP would require that the contributions received in a given year be recorded in revenues for that year and amortization expense would not be offset by the amortization of the deferred revenues. The remaining recovery period is indeterminate as the account is increased each year by new contributions received from customers and drawn down by the straight-line amortization of the account balance. The amortization rates for deferred revenues are the same as those found in Note 2 under Amortization. In fiscal 2013 revenues were \$2,175 (2012 - \$1,104) lower than they would have been and amortization on property, plant, and equipment was \$511 (2012 - \$518) lower than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$1,664 (2012 – decrease of \$586).

#### **Gains and losses on disposal of property plant and equipment**

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

#### **Capitalized fuel**

As per PUB Decision 27-2008, NTPC capitalized fuel associated with the new intake structure capital project at NTPC's Bluefish dam. In the absence of rate regulation, GAAP would require that fuel costs be expensed in the year incurred. There was no fuel used in fiscal 2013 (or 2012) in association with this project. Therefore fuel expense in fiscal 2013 (and 2012) was the same as it would have been in absence of rate regulation. Amortization expense was \$39 (2012 - \$39) higher than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$39 (2012 – decrease of \$39).

#### **Capitalized allowance for funds used during construction**

In Decision 1-2013, the PUB approved NTPC to capitalize costs incurred for interest during construction (IDC) based on the most recent PUB-approved IDC which is 6.540% for fiscal 2013. In fiscal 2012 NTPC capitalized an allowance for funds used during construction (AFUDC) instead of an IDC based on the most recent PUB-approved cost of capital which was 9.674% for fiscal 2008 and future years until the next GRA. The AFUDC rate includes a component for the return on equity. In the absence of rate regulation, GAAP allows interest during construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore, the AFUDC as recorded by NTPC in fiscal 2012 was higher than it would have been in a non-regulated operation, as is the subsequent amortization of the capitalized equity component. Capitalized AFUDC and IDC is recorded as an

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

offset to interest expense (Note 20). Due to the complexities in the calculation, it is not possible to make a reasonable estimate of the carrying value of the equity component of AFUDC in fiscal 2012 to determine the impact of amortization on net income.

In fiscal 2013 approximately \$nil (2012 - \$1,014) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's 2006/08 PUB-approved cost of capital structure. The net effect of rate regulation on net income is an increase of \$nil (2012 – increase of \$883).

### 4. Capital management

NT Hydro's capital structure as at March 31, 2013 and March 31, 2012 was as follows:

	<b>2013</b>	<b>2012</b>
Long-term debt		\$
Less: Sinking funds	\$ 189,819	187,004
Less: Unamortized premium, discount and issuance costs	5,676	25,052
Net long-term debt	1,441	1,389
	<u>182,702</u>	<u>160,563</u>
Net lease obligation	2,306	2,028
Shareholder's equity	110,556	104,067
Less: AOCI	-	-
Adjusted shareholder's equity	<u>110,556</u>	<u>104,067</u>
Total capital	<u>\$ 295,564</u>	<u>266,658</u>

NT Hydro's capital structure consists of its financing sources for capital projects: adjusted shareholder's equity, capital lease obligation, net long-term debt and short-term debt not used to finance regulatory assets. NT Hydro's opportunity to earn income is based on the amount of shareholder's equity it has invested in its rate base. The amount of debt for NTPC is limited to no more than three times shareholder's equity by the *Northwest Territories Power Corporation Act*. The amount of NT Hydro debt is also subject to the federally imposed borrowing cap on total GNWT debt of \$800,000 under which NT Hydro is required to comply. Both NT Hydro and NTPC comply with these external restrictions on their debt limits.

NT Hydro's objectives with respect to managing its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and within the limitations set by the *Northwest Territories Power Corporation Act* and the debt cap limitations of the federal government on the GNWT while striving to deliver targeted financial returns as set by the PUB. NT Hydro manages its capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing quarterly financial results. NT Hydro has set a long-term debt capitalization target of 50/50. The debt capitalization ratio for fiscal 2013 is 63/37 (2012 – 61/39).

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 4. Capital management (continued)

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

### 5. Accounts receivable

The aging of accounts receivable was:

	2013				2012	
	Current (less than 28 days)	29-90 days	Over 90 days	Total	Total	
Utility	\$ 10,916	\$ 937	\$ 1,054	\$ 12,907	\$ 11,686	
Non-utility	2,373	8	822	3,203	7,876	
Allowance for doubtful accounts	-	-	(1,206)	(1,206)	(728)	
	<u>\$ 13,289</u>	<u>\$ 945</u>	<u>\$ 670</u>	<u>\$ 14,904</u>	<u>\$ 18,834</u>	

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

	2013	2012
Balance, beginning of the year	\$ (728)	\$ (361)
Receivables written off	85	93
Increase to allowance	(563)	(460)
Balance, end of the year	<u>\$ (1,206)</u>	<u>\$ (728)</u>

Accounts receivable are reviewed for indicators of impairment. An allowance for doubtful accounts is included in accounts receivable. Additional disclosures on NT Hydro's exposure and management of risk associated with accounts receivable can be found in Note 25.

### 6. Inventories

	2013	2012
Materials, supplies and lubricants	\$ 5,206	\$ 3,981
Fuel	305	181
	<u>\$ 5,511</u>	<u>\$ 4,162</u>

Inventories are comprised of fuel and materials, supplies and lubricants used in the production of electricity in NT Hydro. Production fuel inventory is only held by NT Hydro in four of its operating plants. The fuel requirements for NT Hydro's remaining plants are all managed under the fuel management services agreement described in Note 23. Fuel held as inventory and then expensed in fiscal 2013 totalled \$1,516 (2012 - \$1,540).

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 6. Inventories (continued)

The supplies and services expenses reported in fiscal 2013 includes \$1,112 (2012 - \$1,099) of materials, supplies and lubricants held as inventory throughout the year. The majority of materials, supplies and lubricants are used by NT Hydro to make repairs, complete overhauls or generate electricity.

### 7. Property, plant and equipment

	2013			2012
	Cost	Accumulated amortization	Net book value	Net book value
Electric power plants	\$ 264,794	\$ (68,081)	\$ 196,713	\$ 162,998
Transmission and distribution systems	78,383	(21,965)	56,418	57,534
Electric power plant under capital lease	26,455	(6,753)	19,702	20,002
Warehouse, equipment, motor vehicles and general facilities	40,692	(14,315)	26,377	25,122
Other	7,636	(5,276)	2,360	1,662
Other utility assets	7,062	(1,776)	5,286	5,608
Assets held for future use (critical spare parts)	3,274	-	3,274	3,648
	\$ 428,296	\$ (118,166)	\$ 310,130	\$ 276,574
Construction work in progress	30,470	-	30,470	50,072
Impairment provision	(15,237)	-	(15,237)	(14,625)
	\$ 443,529	\$ (118,166)	\$ 325,363	\$ 312,021

Engineering and other direct overhead expenses allocated to assets placed in service during the year amounted to \$3,444 (2012 - \$3,565).

#### *Impairment provision*

In Decision 1-2013, the PUB determined that a group of distribution assets were not recoverable from customers through rates starting in fiscal 2013. As a result, an impairment provision of \$612 has been recognized and included in amortization.

### 8. Sinking fund investments

Sinking fund investments are held by the Trustee for the redemption of long-term debt. As the sinking funds exist to fund the payout of long-term debt, sinking fund income is treated as a reduction of finance charges and is reflected in interest expense (Note 20).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 25. NT Hydro realized a mark-to-market return of 0.96% (2012 – 5.20%) on the general portfolio of sinking fund investments.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 8. Sinking fund investments (continued)

In May 2012 \$20,000 of the sinking fund balance was retired to offset the repayment of the May 2012 debenture and only two smaller sinking fund debentures remain. In anticipation of this reduced balance, in February 2012 the sinking fund policy was revised to reduce the investment risk of the portfolio and reduce administrative costs. The policy allows only Canadian fixed-income and short-term investments. Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. Fixed-income securities have investment grade credit.

	2013		2012	
	Class value	Weighted average effective rate of return <sup>(1)</sup>	Class value	Weighted average effective rate of return <sup>(1)</sup>
Held for trading (fair value)				
Cash and short-term investments	\$ 5,676	0.96%	\$ 25,052	0.90%
Less: current portion	<u>-</u>		<u>20,000</u>	
	<u><u>\$ 5,676</u></u>		<u><u>\$ 5,052</u></u>	

<sup>1</sup> Rate of return is calculated on market yield for cash and fixed-income securities.

### 9. Intangible assets

	2013			2012
	Cost	Accumulated amortization	Net book Value	Net Book Value
Enterprise software	\$ 3,129	\$ (1,979)	\$ 1,150	\$ 1,016

### 10. Short-term debt

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

	2013	2012
Bankers acceptances and bank overdraft	\$ 5,979	\$ 16,351

In fiscal 2013 short-term debt at March 31, 2013 is only comprised of a bank overdraft balance. The short-term debt outstanding at March 31, 2012 had a weighted average 30 day term and a 2.25% weighted average annual interest rate.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

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

	<b>2013</b>	<b>2012</b>
5.16% amortizing debenture, due September 13, 2040	\$ 49,201	\$ 50,000
5.443% debenture, due August 1, 2028	25,000	25,000
5.995% debenture, due December 15, 2034	25,000	25,000
3.818% debenture, due November 25, 2052	25,000	-
5% debenture, due July 11, 2025	15,000	15,000
6.83% amortizing debenture, due December 18, 2032	13,333	14,000
6.33% sinking fund debentures, due October 27, 2018	10,000	10,000
8.41% sinking fund debentures, due February 27, 2026	8,700	8,700
9.11% debenture series 3, due September 1, 2026 repayable in equal monthly payments of \$73	6,774	7,021
9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69	5,932	6,165
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70	5,879	6,118
10.75% sinking fund debentures, due May 28, 2012	-	20,000
	<b>\$ 189,819</b>	<b>\$ 187,004</b>
Less: Unamortized premium, discount and issuance costs	1,441	1,389
	<b>188,378</b>	<b>185,615</b>
Less: Current portion	2,298	22,184
	<b>186,080</b>	<b>163,431</b>
Less: Sinking fund investments (Note 8)	5,676	25,052
Long-term debt, net of sinking fund investments	<b>\$ 180,404</b>	<b>\$ 138,379</b>

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Principal repayments	\$2,298	\$2,414	\$2,544	\$2,691	\$2,847
Sinking fund investment contributions	\$ 780	\$ 780	\$ 780	\$ 780	\$780

### 12. Net lease obligation

NTEC loaned funds to the Dogrib Power Corporation to finance the construction of a hydroelectric generating plant on the Snare River in the Northwest Territories from 1994 to 1996. The balance of the loan receivable is \$17,570 (2012 - \$18,191). The loan bears interest at an annual rate of 9.6%, which is the average rate of interest on NTEC's long-term debt issued to finance the loan. It is due July 2026 and is repayable in equal monthly payments of \$195. The loan is secured by a charge against the plant and the lease agreement.

NTPC has an initial 65-year lease for the plant at an imputed interest rate of 9.6% from the Dogrib Power Corporation until 2061. The value of the capital lease obligation is \$19,598 (2012 - \$20,003). To

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

#### Note 12. Net lease obligation (continued)

reflect the effective acquisition and financing nature of the lease, the plant is included in electric power plants in property, plant and equipment. (Note 7)

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$2,028 (2012 - \$1,812). The current portion of the net lease obligation is a receipt of \$278 (2012 - \$216) and is recorded in accounts receivable. As a result, upon consolidation, in the early years there will be a net payment and in later years there will be a net receipt until such time as the loan receivable is fully repaid in 2026 when only the capital lease obligation payments continue until 2061.

Subsequent to March 31, 2013 there was a security change in the net lease obligation arrangement. See Note 27 for additional details. The change in the security does not impact the financial results of the net lease obligation arrangement.

Fair value information for the net lease obligation is included in Note 25.

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

2014	2015	2016	2017	2018
\$347	\$423	\$506	\$597	\$698

#### 13. Asset retirement obligations

	2013	2012
Balance, beginning of the year	\$ 7,388	\$ 4,674
Liabilities settled	(815)	(576)
Accretion expense	322	174
Valuation adjustment	4,991	2,695
Additions	338	421
Balance, end of the year	<u>\$ 12,224</u>	<u>\$ 7,388</u>

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

- Total expected future cash flows - \$28,306 (2012 - \$21,380)
- Expected timing of payments of the cash flows – majority of expenditures expected to occur after fiscal 2030
- The weighted average discount rate is the credit-adjusted risk-free rate of 5.50% for those obligations identified prior to fiscal 2013 and 3.90% for those obligations identified in fiscal 2013

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

#### 14. Environmental liabilities

NT Hydro estimates that it would cost approximately \$20,891 (2012 - \$14,802) to clean up the environmentally contaminated soil at its 27 sites in the NWT. The discounted present value of these obligations is \$8,632 (2012 - \$4,144) and is included in asset retirement obligations.

Management estimates that over 75% of the contamination occurred prior to May 5, 1988 when the Government of Canada controlled NCPC. There is no provision recorded in these financial statements for a potential recovery from the Government of Canada.

#### 15. Deferred government contributions

Following is a summary of net deferred government contributions:

	<b>2013</b>	<b>2012</b>
Balance, beginning of the year	\$ 2,852	\$ 12,009
Eligible funding	288	5,229
	<hr/>	<hr/>
Amortization for the year	3,140	17,238
Contributions related to asset disposals	(206)	(201)
	<hr/>	<hr/>
Balance, end of the year	\$ 2,678	\$ 2,852

In fiscal 2013 the GNWT signed a one-year capital contribution agreement for \$250 with NTPC for capital project funding assistance for the expansion of the photovoltaic generation system in Ft. Simpson. As of March 31, 2013, eligible costs incurred were \$331. There is \$50 owing to NTPC by the GNWT under this agreement at the end of the year. Total project costs of \$331 were capitalized during the year.

There was also \$38 of funding additions related to eligible spending in fiscal 2012 for fiscal 2012 contribution agreements that was received and recorded by NTPC in fiscal 2013.

#### 16. Employee future benefits

##### a) Public Service Pension Plan:

The employees of NT Hydro are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and NT Hydro. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The employer contribution rate effective at the end of the year was 1.64 times employees' contributions (2012 – 1.74 times). Total contributions of \$2,737 (2012 - \$2,833) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 16. Employee future benefits (continued)

percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

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

	<b>2013</b>	<b>2012</b>
Accrued benefit obligation, beginning of the year	\$ 1,938	\$ 2,120
Net increase in obligation for the year	1,650	385
Benefits paid during the year	(646)	(567)
Accrued benefit obligation	1,942	1,938
Less: current portion	(585)	(413)
Accrued benefit obligation, end of the year	<u>\$ 1,357</u>	<u>\$ 1,525</u>

### 17. GNWT power sales contributions

In fiscal 2013, NTPC signed a contribution agreement with the GNWT to provide a direct operating subsidy (cash contribution) to retire the balance in NTPC's Consolidated Fuel Stabilization Fund at March 31, 2012 to mitigate the impact of the revenue requirement changes on customers and to ensure a transition from current rates to final approved rates, over a 3 year period from fiscal 2013 to fiscal 2015. Under the agreement the GNWT provided \$15,600 to NTPC in fiscal 2013. \$4,000 paid down the receivable set up by NTPC as at March 31, 2012 to retire the Consolidated Fuel Stabilization Fund. The remaining \$11,600 was recorded as revenues. All of the funding for fiscal 2013 was received in fiscal 2013. See *Rate regulation* under Note 2 for additional details.

### 18. Other revenues

	<b>2013</b>	<b>2012</b>
Connection fees	\$ 350	\$ 349
Contract work	305	570
Pole rental	272	247
Heat revenues	222	214
Miscellaneous	163	88
	<u>\$ 1,312</u>	<u>\$ 1,468</u>

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### 19. Amortization

	<b>2013</b>	<b>2012</b>
Property, plant and equipment	\$ 13,837	\$ 12,329
Regulatory assets	5,104	3,127
Intangible assets	267	287
Deferred revenues (Note 3)	(722)	(518)
	<hr/> <b>\$ 18,486</b>	<hr/> <b>\$ 15,225</b>

### 20. Interest expense

	<b>2013</b>	<b>2012</b>
Interest on long-term debt	\$ 13,178	\$ 14,859
Short-term debt financing costs	328	435
Income from sinking fund investments	(76)	(1,561)
Income on loan receivable (Note 12)	(1,719)	(1,776)
Capitalized interest during construction (Notes 2, 3)	(1,507)	-
Capitalized allowance for funds used during construction (Notes 2, 3)	-	(2,783)
	<hr/> <b>\$ 10,204</b>	<hr/> <b>\$ 9,174</b>

### 21. Other government contributions

The GNWT provided \$1,312 (2011 - \$2,312) to NT Hydro and its subsidiaries for operating costs related to furthering the NWT Hydro Strategy and water monitoring activities, consideration of renewable energy options and energy options in Inuvik, support of the 2012 NWT Energy Charette, transmission line options from Fort Providence and a program related to rate review. Any funding provided under the contributions agreements and not expended during the current fiscal year is repayable to the GNWT. As at March 31, 2013, a net receivable of \$130 (2012 - \$35) of funding under these agreements was still receivable from the GNWT and is recorded in accounts receivable.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### 22. Share capital

	Number of shares	2013	Number of shares	2012
<b>Preferred shares</b>				
Authorized:				
One preferred share, non-cumulative, without par value	1	\$ -	1	\$ -
Issued and outstanding:				
Issued on incorporation (one dollar)	<u>1</u>	<u>\$ 43,129</u>	<u>1</u>	<u>\$ 43,129</u>
<b>Common shares</b>				
Authorized:				
One common share without par value	1	\$ 43,129	1	\$ 43,129
Issued and outstanding:				
Issued on incorporation	<u>1</u>	<u>\$ 43,129</u>	<u>1</u>	<u>\$ 43,129</u>

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

### 23. Commitments and contingencies

#### Capital projects

In March 2013, the Board of Directors approved a capital plan for fiscal 2014 of \$28,384 (2012 - \$22,860) which includes the costs to complete projects already in progress at March 31, 2013.

#### Natural gas purchase commitment

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

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

Since January 2012 gas generation has been significantly curtailed – running approximately 18% the first six months and 2% the last six months of 2013. The remainder of the generation is produced by the diesel plant. In fiscal 2013, gas represented 9% of the fuel used for power generation in Inuvik.

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

#### Note 23. Commitments and contingencies (continued)

##### Fuel management services agreement

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

##### Other

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

#### 24. Related party transactions

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

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

	<b>2013</b>	<b>2012</b>
<b>Transactions during the year:</b>		
Sale of power and other	\$ 21,990	\$ 20,197
Purchase of fuel from PPD	26,090	16,398
Other purchases and payments	1,198	1,544
Fuel tax paid to GNWT	-	155
GNWT refunded deposit for purchase of land and building	-	2,043
<b>Balances at year-end:</b>		
Accounts payable to PPD	2,191	7,298
Accounts receivable	1,611	5,606
Accounts payable, accrued liabilities and derivatives	29	62

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### 25. Financial Instruments

#### Risks – overview

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

Financial instrument	Classification	Risks			
		Market risks			
		Credit	Liquidity	Currency	Interest rate
<b>Measured at cost or amortized cost</b>					
Accounts receivable	Loans and receivables	X			
Accounts payable	Other financial liabilities		X	X	
Long-term debt	Other financial liabilities		X		X
Net lease obligation	Other financial liabilities	X	X		X
Short-term debt	Other financial liabilities		X		X
<b>Measured at fair value</b>					
Cash	Held for trading	X			
Short-term investments	Held for trading		X	X	X

#### a) Credit risk

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

	<b>2013</b>	<b>2012</b>
Snare Cascades loan receivable	\$ 17,570	\$ 18,192
Accounts receivable	14,904	18,834
Sinking fund short-term investments	5,676	25,052
Cash	2,015	1,368
	<b>\$ 40,165</b>	<b>\$ 63,446</b>

#### *Snare Cascades loan receivable*

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

#### *Accounts receivable*

The majority of NT Hydro's accounts receivable are held by NTPC. NTPC minimizes accounts receivable credit risk by having a collections policy and terms and conditions of service consistent with industry standards. Credit risk is minimized by NTPC's large customer base. Thirty seven percent (2012 - 36%) of NTPC's sales are to two other utilities. Eleven percent (2012 - 11%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 5 analyzes the age of customer accounts receivable.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 25. Financial instruments (continued)

#### *Cash and sinking fund investments*

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

#### b) Liquidity risk

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

Liquidity risk is also managed by continuously monitoring actual and forecast cash flows, having the opportunity to borrow on a short-term basis from the shareholder and by maintaining a \$20,000 operating line with a reputable financial institution. The operating line can be temporarily increased on a short-term basis if required.

The following table shows the maturities of the NT Hydro's short and long-term debt (excluding bank overdraft) as at March 31, 2013:

<u>Timeframe</u>	<u>Dollar value</u>	
	<u>2013</u>	<u>2012</u>
Less than 1 year	\$ 2,293	\$ 35,678
Greater than 1 year and not later than 6 years	23,516	12,791
Greater than 6 years and not later than 20 years	93,346	103,484
Greater than 20 years	70,732	48,612
	<u>\$ 189,887</u>	<u>\$ 200,565</u>

#### c) Currency risk

#### *Accounts payable*

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

#### d) Interest rate risk

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

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

#### **Note 25. Financial instruments (continued)**

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

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

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

##### **e) Other price risk**

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

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

##### **f) Sensitivity analysis for market risks**

Market risk is the risk that the fair value or future cash flows of NT Hydro's financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Net income and other comprehensive income could have been different if the variables impacting the financial instruments subject to market risk had varied by reasonably possible amounts from their actual balance sheet date values.

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

The sensitivity analysis of NT Hydro's exposure to interest rate risk at the reporting date has been determined based upon the hypothetical change taking place at the beginning of the fiscal year and being held constant through to the current balance sheet date. For fiscal 2012 and 2013, all of NT Hydro's gains and losses have been realized. Short-term interest expense and revenue will vary throughout the year.

These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased amount, and unfavourable hypothetical changes in the assumptions result in a decreased amount, of net income and/or other comprehensive income. Changes in net income and/or other comprehensive income generally cannot be extrapolated

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 25. Financial instruments (continued)

because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear.

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

	Reasonable possible changes in market variables					
	Currency risk 10%		Interest rate risk 25 basis points		Other price risk 10%	
	2013	2012	2013	2012	2013	2012
Net income	\$129	\$25	\$21	\$531	\$-	\$60
Other comprehensive income	-	-	-	-	-	-

#### g) Fair value determination

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

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

As at March 31, 2013, the fair value and carrying value of NT Hydro's financial instruments are:

	Level	Fair value		Carrying value	
		2013	2012	2013	2012
<b>Held for trading financial assets</b>					
Cash	Level 1	\$ 2,015	\$ 1,368	\$ 2,015	\$ 1,368
Short-term investments	Level 1	5,676	25,052	5,676	25,052
		\$ 7,691	\$ 26,420	\$ 7,691	\$ 26,420
<b>Other financial liabilities</b>					
Long-term debt	Level 2	\$ 241,788	\$ 237,792	\$ 241,788	\$ 185,615
Net lease obligation	Level 2	6,574	6,024	6,574	1,812
		\$ 248,362	\$ 243,816	\$ 248,362	\$ 187,427

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)

### Note 25. Financial instruments (continued)

#### h) Impairment

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

As at March 31, 2013, NT Hydro provided an allowance for doubtful accounts of \$1,206 (2012 - \$728) for some of its accounts receivable accounts with amounts outstanding longer than 90 days. NT Hydro does not consider any other financial instruments to be impaired (2012 - \$nil).

### 26. Investments in joint ventures

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

	<b>2013</b>	<b>2012</b>
Other revenues	\$ 119	\$ 98
Operating expenses including amortization	51	34
Net income	<hr/> \$ 68	<hr/> \$ 64
Current assets	\$ 250	\$ 145
Non-current assets	455	479
	<hr/> \$ 705	<hr/> \$ 624
Current liabilities	\$ 27	\$ 14
Shareholder's equity	678	610
	<hr/> \$ 705	<hr/> \$ 624
Cash flows provided by operating activities	\$ 13	\$ 88
Cash flows provided by investing activities	-	-
Cash flows used in financing activities	-	-

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2013 (\$000's)**

#### **27. Subsequent events**

Following are significant events occurring after March 31, 2013:

##### **Net lease obligation**

Subsequent to March 31, 2013, there was a security change made in the lease/loan agreement between DPC and NTEC. In 1996 when the lease/loan agreement was signed, DPC granted first charge to NTEC over the lands, all buildings and all improvements pledging the assets as collateral for the loan. DPC also established a Sinking Fund Trust Agreement. Under this agreement, DPC deposited a portion of the monthly lease payments received by DPC from NTPC, into a sinking fund. This sinking fund was used as collateral and to assist with the loan payments made to NTEC from 2014 to 2026. The fund was invested in a Government of Canada Treasury Bill. The Terms of the Sinking Fund Agreement allowed DPC to replace the sinking fund with another form of security if all the parties agreed.

After March 31, 2013 DPC, with the approval of NTEC, withdrew the funds from the sinking fund. A \$4 million guarantee from DPC's parent company, the Tlicho Investment Corporation ("TIC") was provided as replacement collateral for the loan from NTEC to DPC. A blocked account agreement was also established as collateral for the loan. The blocked account agreement assigns certain cash flows to be deposited into a bank account each month. This account is used as additional collateral for the NTEC loan to DPC. NTEC has signing authority and full control over the blocked account. At the beginning of each fiscal year, the balance in the blocked account must be equal to the top up payments required for the next 12 months. The top up payment is the difference between the loan payment made by DPC to NTEC and the lease payment received by DPC from NTPC.

##### **Rate regulation**

On July 9, 2013 the PUB issued Decision 9-2013, the PUB ruling on NTPC's Compliance Filing related to the 2012/14 GRA. There were no significant changes to NT Hydro's financial statements as a result of this Decision. Decision 9-2013 confirmed the assumptions made by management in preparing these financial statements.

#### **28. Comparative figures**

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