

Qulliq  
Energy  
Corporation

Year Ending March 31, 2009

Eighth

Annual Report

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# Letter of Transmittal

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May 21, 2010

Honourable Hunter Tootoo

Minister Responsible for Qulliq Energy Corporation

Legislative Assembly of Nunavut

Iqaluit, Nunavut

X0A 0H0

Minister:

I have the privilege of presenting the eighth annual report of Qulliq Energy Corporation (QEC), incorporating the audited financial statements for the fiscal year ending March 31, 2009.

Respectfully submitted,



Simon Merkosak

Chair

Qulliq Energy Corporation

# Chair's Message

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The Board of Directors is pleased to release Qulliq Energy Corporation's 8<sup>th</sup> Annual Report. 2008-09 was another successful year for Qulliq Energy, even with the departure of some of the Corporation's most senior managers.

The unrelenting instability in global fossil fuel prices has meant that QEC has had to focus as much as possible on alternative energy strategies to meet the long-term energy needs of Nunavummiut. QEC remains motivated by our sense of environmental responsibility and corporate stewardship and persists in our search for cleaner forms of energy. QEC continues to work in five key ways to stabilize prices and reduce emissions:

- Improving plant efficiency
- Investing in residual heat projects
- Raising awareness in regards to energy efficiency
- Reviewing hydro-electric generation options
- Studying other alternative power-generation sources.

QEC continues to find ways to improve our performance, celebrate where we have accomplishments, learn from the challenges that we face, and work to build the changes Nunavut will require moving into the future.

The Board of Directors is pleased with the continued progress of the Corporation and we hope our stakeholders will continue to work with us to ensure a safe, reliable and clean supply of energy for Nunavummiut into the future.

Simon Merkosak

Chair,

Qulliq Energy Corporation

# President's Message

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Qulliq Energy Corporation's 2008-2009 fiscal year can be described as a year of change. The Corporation was subject to major turnover at the senior management level, with the departure of a CFO, a Director of HR and the former President and CEO. An interim President and CEO was selected to ensure the corporate functions continued to move forward while hiring began for the CFO and Directors of HR and Finance.

Change is synonymous with transformation. QEC is taking this opportunity to transform itself into a better service provider, better corporate citizen, and better employer. We are working to reach our goal of growing and transforming with the people, the communities and the industries that will form Nunavut's future, while addressing their needs today.

The period of transition within our department of Finance has led to a delay in the completion of this year's financial statements. The continued day-to-day financial service of our staff is a testament to the processes set in place and adhered to by managers and employees, emphasizing that corporate progress happens at every level.

The Corporation stayed in good financial standing, and continued to make small but essential revenues on district heating projects and recoverable work. Our ability to grow and diversify our capital investments and generation options as a corporation depends both on return and on borrowing, which continues to strengthen with our strong financial management.

QEC's Human Resources department also underwent a period of transition this year, which included the acquisition of a new Director of Human Resources, as well as, a number of HR Specialists. The new HR team began right away to address the many issues surrounding employment in the North, but also focused on actions to improve QEC's corporate culture, which will in turn improve the experiences and interactions with our customers. Facing the continuing difficulty of recruiting skilled employees in the North, the Corporation is maintaining its focus on retaining the skilled workers we currently have, and making education and training available for all of our employees to strengthen our workforce.

Our Engineering department continues to deliver projects that adhere to approved budgets, legislative parameters, and our asset ratio. The expansion of a number of district heating systems has increased the access of residual heat as a heating alternative to commercial customers. Our Engineers and engineering technicians maintain an ongoing focus on projects that address the current needs of Nunavummiut, while keeping ahead of the Territory's expected growth and expansion.

A change to the Government of Nunavut's legislative assembly in 2008 also saw an alteration to the Territory's energy plan. What remains consistent is the incredibly important role that energy infrastructure and services play on Nunavut's present existence and future growth.

Qulliq Energy Corporation is looking forward to continuing our partnerships with various GN departments, as well as the governments of other provinces and territories and the Federal Government to improve the services and products that we deliver to Nunavummiut.

Per: **Peter Mackey**

Bruce Rigby

Interim President and CEO

# 2008-09 Key Activities

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- Qulliq Energy Corporation had a reliability rate of 99.89% across all 25 communities, with an average of 9.75 hours of unscheduled outages per community for the entire year.
- QEC continues to have one of the highest numbers of Inuit employees in a government department or agency in the entire Territory. In 2008/09, the percentage of Inuit employees with the Corporation was 55%.
- The Corporation continues to be one of the largest apprenticeship sponsors in the Territory, both directly through the hiring and training of trades' apprentices, as well as indirectly through sponsorship of programs like Skills Canada Nunavut.
- The Laura Ulluriaq Gauthier Scholarship was awarded to Genevieve Killulark of Baker Lake, NU. The scholarship awards \$5,000 each year to an outstanding Northern student pursuing post-secondary training or education.
- During the summer of 2008, QEC's Board of Directors used all of the information provided to them so far to decide on a potential site to focus on for a feasibility study for Hydro-electric generation. The site they decided on was as Jayne's Inlet.
- The Nunavut Energy Centre produced the "Lighting the Way" public information campaign. The campaign was undertaken in order to inform Nunavummiut on the economic and environmental benefits of CFL light bulbs, compared to regular incandescent bulbs.
- The Corporation's Debt Equity Ratio in Fiscal Year 2008-2009 was 1.51:1, an improvement upon the year before, and well within the legislated debt equity ratio of 3:1.
- The Fuel Stabilization Rider increased in June of 2008 from 6.40 ¢ per kWh to 12.52 ¢ per kWh in response to the jump in the global price of fuel at the time of re-supply.

## *Key Activities Looking Forward:*

- Qulliq Energy Corporation/Nunavut Power is planning to run an Apprenticeship Bootcamp in the fall of 2009.
- QEC continues to perform base-line studies on the potential of Hydro-electric generation around Iqaluit.
- QEC will unveil its Inuit Summer Student Equity Program during the summer of 2009. This program will place northern students in QEC offices across the territory to give them hands-on experience in a corporate setting, putting them ahead of their peers as they complete their education and look to enter the workforce.
- Learning from the Rankin Inlet Power Outage of February 2008, QEC has recognized the need for emergency generators in some of the territory's larger communities. In the winter of 2009, QEC plans to deliver an emergency generator to Rankin Inlet.

# Board of Director Biographies

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## **Mr. Simon Merkosak, Chair**

Mr. Merkosak was appointed chair on September 1, 2001. He also served as Member and Board Chair for the former NWT Power Corporation.

Mr. Merkosak has held many other elected and non-elected positions including Mayor of Pond Inlet, Director of Toonoonik Sahoonek Co-op Ltd., Director of Baffin Regional Chamber of Commerce, and Chair of the Okpik Youth Club.

He is the owner of Merkosak Construction, co-owns J.M. Sportswear with his wife, and has operated successful businesses in the transportation and communication fields. Prior to entering the private sector, Mr. Merkosak served as the senior administrative officer for the hamlet of Pond Inlet for ten years.

## **Mr. Johnny Mike, Director**

Mr. Mike was appointed as a Director to the Qulliq Energy Corporation Board in September 2005. He is a former NTPC operator from Pangnirtung who has gone on to serve with QIA and as the President of NCC (Nunavut Construction Corporation) and NIC.

Mr. Mike lives in Pangnirtung.

## **Mr. Ron Roach**

Mr. Roach was appointed to a 3 year term as vice chair of the Qulliq Energy Corporation Board in October, 2005.

Mr. Roach currently owns and operates three successful businesses in Rankin Inlet. Prior to entering the private sector, Mr. Roach worked for the Hamlet of Rankin Inlet, as well as the Governments of the Northwest Territories and Nunavut.

Mr. Roach currently resides in Rankin Inlet.

## **Mr. Colin Low-A-Chee, Director**

Mr. Low-A-Chee was appointed as Director to the Qulliq Energy Corporation Board in September, 2004, and was most recently reappointed in January 2008 to a term of 2 years.

Mr. Low-A-Chee has an extensive background in the private sector, working all over the world. He has experience in the Utility sector, having worked at both Mississauga Hydro and Etobicoke



Hydro in Ontario. Mr. Low-A-Chee is a graduate of McGill and York Universities, where he completed his MBA.

Mr. Low-A-Chee spent 2 years in Rankin Inlet as Operations Manager for Piruqsaijit Limited, an Inuit owned management firm. He currently resides in Mississauga, Ontario.

### **Mr. Gordie Main, Director**

Mr. Main was appointed as a Director to the Qulliq Energy Corporation Board in September, 2004 and was most recently reappointed for a two-year term in January, 2008.

Originally from Scotland, Mr. Main retired as the General Manager for the Northern Store in Arviat, Nunavut, where he has lived for more than 30 years. Mr. Main has also served as a Member of the Health Committee, the Educational Council and the Hamlet Council in Arviat.

### **Mr. Wayne Solomon, Director**

Mr. Solomon was appointed as a Director to the Qulliq Energy Corporation Board in October, 2005 and was recently reappointed for a two-year term in January, 2008.

Mr. Solomon holds a degree in business administration and a diploma in computer operations, as well as CMA and ACMA designations. Mr. Solomon is currently working towards his CPA designation.

Mr. Solomon has an extensive background in finance and some experience in construction.

### **Mr. Robert Seeteenak, Director**

Mr. Seeteenak was appointed as a Director to the Qulliq Energy Corporation Board in March, 2007 for a term of 3 years.

Mr. Seeteenak has held the position of Assistant Senior Administrative Officer for the Hamlet of Baker Lake for over 20 years.

### **Mr. Alain Carriere, Director**

Mr. Carriere was appointed as a Director to the Qulliq Energy Corporation Board in March, 2007 for a term of 2 years.

Mr. Carriere has been a resident of the North for over 30 years. He was a plant superintendent for the Northern Canada Power Commission in Cape Dorset. He has also spent many years working in the private sector.

Mr. Carriere has served on numerous boards throughout the North and Canada. He currently resides in Iqaluit.

### **Mr. Fred Martin, Director**

Mr. Martin was appointed as a Director to the Qulliq Energy Corporation Board in March, 2007 for a term of 2 years.

Mr. Martin is a retired professional engineer and brings to the board over 30 years experience in all facets of design, construction, operation, maintenance and management of facilities in a modern electrical utility environment.

Mr. Martin currently resides in St. John's, Newfoundland.

# Corporate Profile

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On April 1, 2001 Nunavut Power Corporation (NPC) took on the mandate to supply electricity to communities in the Nunavut Territory. Renamed Qulliq Energy Corporation (QEC) in 2003, this territorial corporation is wholly owned by the Government of Nunavut.

Qulliq Energy Corporation is incorporated and operates under the *Qulliq Energy Corporation Act*. QEC's energy pricing is regulated pursuant to the *Utility Rates Review Council Act*. It operates under three trade names;

*Nunavut Power* generates and supplies electricity, *Nunavut Energy Centre* addresses the energy conservation and demand-side management mandate, and *Qulliq Energy* provides core services to corporate functions.

All of these divisions share a single Board, common financial statements and a unified corporate structure.

QEC has roughly 9,500 customers, including approximately 30 residual heat customers, across Nunavut. In 2008-2009 the Corporation generated and distributed power to Nunavummiut through the operation of 27 diesel plants in 25 stand alone communities. Each power plant employs a plant superintendant and an assistant operator, with the exception of Iqaluit which has a 6 person team running a 24 hour operation. Mechanical, electrical and line maintenance is provided from three regional centres, and the Corporation's business activities are administered from Corporate Headquarters in Baker Lake and Executive offices in Iqaluit.

All electricity, heating and transportation needs in Nunavut are met by imported fossil fuel. Qulliq Energy is the only energy corporation in Canada without developed local energy resources or regional electricity transmission capability, creating a situation of huge fossil fuel dependency. Each community in Nunavut has its own independent electricity generation and distribution system. There is no back-up grid.

Community-based electricity production totaled approximately 160,088,152 kilowatt-hours in 2008-2009.

## Vision Statement

*Powering Nunavummiut into the Future...Today*

*Powering*-represents our core business and the Corporation's role of ensuring the availability of reliable, safe and sufficient supply of electricity, empowering all Nunavummiut and all other stakeholders to grow the residential, commercial and industrial infrastructure of Nunavut.

*Nunavummiut*- represents the people and the unique culture embodied in Nunavut.

*Into the Future...Today*- means evolving in anticipation of the needs of tomorrow while meeting the needs of Nunavummiut today.

## Mission Statement

*Qulliq Energy Corporation is committed to supplying safe, reliable and efficient energy through responsive and respectful interaction with all stakeholders.*

## Values

*Safety is and will continue to be the Corporation's first priority. This fact is communicated to the Corporation's employees clearly and consistently.*

*Reliability is second only to safety. The focus of the Corporation's day-to-day operations is the provision of safe and reliable service to customers.*

*Efficiency is applicable to all of the Corporation's operational and administrative activities. Efficiency indicates the Corporation's intention to provide customers with safe and reliable power at a reasonable cost.*

*Responsive to and Respect for Stakeholders guides the Corporation's actions and interaction with all stakeholders, of which there are many. The stakeholders integral to our core business are our customers. The Corporation strives to continually improve customer service.*

## Corporate Logo

The Corporation's logo, adapted from the Nunavut Power logo unveiled by the Board of Directors in March 2001, was the winning design chosen from over 200 submissions by Nunavut students. The logo is a symbol that incorporated one of the most traditional of all Inuit tools, the qulliq.

The symbolism of the qulliq is clear and even more so now with the change in the Corporation's name. The means of providing heat and light in the 21<sup>st</sup> century may have changed, but the importance has not diminished.



# Management Discussion and Analysis

An unexpected combination of a drastic plant failure in Rankin Inlet and the dramatic rise in global fuel prices led the Corporation to incur more expenses than revenues in FY 2007-2008, despite sales continuing to increase over the five year period. This led to QEC's first net loss in four years. The Corporation has been able to improve upon the financial situation, producing net gains in FY 2008-2009. The June 2008 increase in the Fuel Stabilization Rider from 6.40 ¢ per kWh to 12.52 ¢ per kWh has allowed Qulliq Energy to regain some of the previous year's expenses in fuel costs, while the overall sales of electricity continued its rise in line with the growth of the territory. A one-time contribution from the Government of Nunavut for major costs accrued during the Rankin Inlet outage of 2008 was crucial to improving the Corporation's net income.

Figure 1 - Statement of Income, 5 year summary (\$000)

	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
<b>Revenues</b>	79,619	77,319	71,263	67,024	57,067
<b>Fuel Stabilization Rider</b>	15,901	9,593	7,620	2,543	-
	95,520	86,912	78,883	69,567	57,067
<b>Expenses</b>	94,791	87,081	77,481	67,786	62,059
<b>Operating Profit (loss) before Division Expenses and GN Contributions</b>	729	(169)	1,402	1,781	(4,992)
<b>Division Expenses</b>	-	-	-	-	(535)
<b>Government of Nunavut Contributions</b>	2,113	-	5,160	-	12,000
<b>Net Income (Loss)</b>	2,842	(169)	6,562	1,781	6,473

Figure 2 - Statement of Financial Position-5 year summary (\$000)

March 31	2009	2008	2007	2006	2005
Asset					
Current	45,791	34,666	32,836	33,109	42,362
Long-term	-	-	621	807	-
Fixed assets	150,738	140,275	131,465	121,960	118,924
	196,529	174,941	164,922	155,876	161,286
Liabilities					
Current	38,680	26,232	20,735	23,468	35,912
Long-term debt	63,021	66,572	66,349	62,354	59,431
Other	43,314	59,697	28,997	26,629	24,299
	145,015	126,269	116,081	112,451	119,642
Retained Earnings	51,514	48,672	48,841	43,425	41,644
	196,529	174,941	164,922	155,876	161,286

The performance indicators are used to monitor the Corporation's financial position, revenues, expenses and operations. These performance indicators allow management to identify both positive and negative trends, in compliance with debt covenants and territorial legislation.

The Corporation's debt to equity ratio requirement, referred to as the borrowing limit, is three to one or .75 to .25. Since the fiscal year ended March 31, 2004, QEC has remained within compliance of the legislative requirement.

Figure 3 - Performance Indicators-5 year summary (\$000)

	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Debt to Equity					
Debt*	0.60	0.60	0.59	0.61	0.65
Equity	0.40	0.40	0.41	0.39	0.35
Bank Debt	11,206	4,275	3,464	6,968	-
Current portion of LT debt	3,552	3,419	3,161	2,678	17,569
Long term debt	63,021	66,572	62,258	57,753	59,431
	77,779	74,266	68,883	67,399	77,000
Equity	51,514	48,672	48,841	43,425	41,644
Section 25 QEC Act (3:1 max. borrowing)	1.51	1.53	1.41	1.55	1.85

\*includes bank indebtedness

## Operations

At the heart of our operations within Nunavut are the divisions which generate electricity for Nunavummiut under the operating name Nunavut Power.

The Operations Department is divided into three geographical regions: Qikiqtaaluk, Kivalliq and Kitikmeot. Each region's operation and maintenance programs are administered by a team of electricians, mechanics and linepersons with the specialized support of environmental officers, safety officers and technologists from Iqaluit.

QEC's Operations department faces two major challenges in day to day operations. On the human capital side, the Corporation continues to face barriers in the recruitment and retention of skilled tradespersons, as demand for skilled trades in Southern Canada remains high.

The other major challenge faced by the Operations department is aging infrastructure across the territory. QEC is consistently working to address this problem by adhering to a strict maintenance schedule on all of the generator sets within the Corporation's fleet.

Safety and reliability remain QEC's top priorities, and the Operations department takes every step to ensure that the power remains on for our customers. Aging infrastructure is an issue that will need to be addressed in the near future, in order to maintain reliable service as Nunavut's population and industry grows.

Figure 4 - Operations & Maintenance Expenses-5 year summary

Expenses as % of total expenses

	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Fuel & lubricants	47.3%	43.3%	44.6%	41.9%	40.4%
Salaries & wages	20.0%	20.4%	21.0%	22.8%	23.8%
Supplies & services	14.1%	18.1%	16.0%	16.5%	16.6%
Amortization	8.6%	9.4%	9.0%	9.5%	9.0%
Travel & accommodations	3.6%	3.8%	4.0%	3.5%	3.3%
Interest expense	4.0%	5.0%	5.4%	5.8%	6.9%
Bad Debts	2.4%	-	-	-	-
	100%	100%	100%	100%	100%



## Operational Highlights

In the last five years, the Corporation has sustained annual growth in sales between 2 per cent and 3 per cent. During the fiscal year 2008-2009, growth is 2.0 percent, down from 3.0 percent through 2006-2008.

As is visible in Fig. 5, the sales of electricity in the Kivalliq region were strong, with a regional growth of 3.0 per cent over the previous year. The increase in sales across the territory is likely due to the growing population of Nunavut, as well as to the continued progress in infrastructure projects, and the increased number of housing units being constructed to meet demand in all regions.

Figure 5 - Sales by Region (gWh)-5 year summary

Region	2008-2009	%	2007-2008	%	2006-2007	%	2005-2006	%	2004-2005	%
Kitikmeot	22.2	2.3	21.7	4.8	20.7	3.5	20.0	2.0	19.6	1.6
Kivalliq	37.2	3.0	36.1	3.4	34.9	2.3	34.1	1.8	33.5	7.4
Qikiqtaaluk	86.8	1.4	85.6	2.4	83.6	3.1	81.1	2.0	79.5	1.0
	146.2	2.0	143.4	3.0	139.2	3.0	135.2	2.0	132.6	2.6

### Safety:

The safety of our employees and the public remains QEC's number one priority. We continue to provide a safe and healthy working environment for our employees, while also providing our customers with information and advice on the safe and efficient use of electricity.

In 2008, QEC continued to implement annual plant safety inspections, as well as mandatory WHMIS and First Aid training for employees in specific positions. Each plant operator is First Aid Certified, and the Corporation provides First Aid Certification training through St. John's Ambulance to any employee who is interested in receiving it.

### Environment:

Qulliq Energy's dedication to the environment is a core focus in all of the Corporation's activities. This includes the identification and mitigation of any environmental risks as well as initiatives to complete environmental assessments and remediation projects.

In 2008-2009, QEC's Environmental staff had a demanding work-season addressing issues across the territory. There were a series of old plant decommissions in Baker Lake and Whale Cove. An old plant decommission had begun in Gjoa Haven but was then put on hold while an issue regarding building ownership was addressed with the Hamlet.

QEC's plant operators have become stakeholders in the delivery of the Corporation's environmental plans. This past year, plant superintendants and operators received a certificate

in IATA Air Transportation of Dangerous Goods during the Annual Operator training in Iqaluit and Cambridge Bay. They were also given WHMIS refreshers.

QEC has submitted all of the required fuel tank information within the stated timeframe to Environment Canada for the regulation process of the Federal Petroleum Products and Allied Petroleum Products Storage Tank System Regulations.

### **Reliability:**

Qulliq Energy and Nunavut Power are committed to the reliable delivery of power to their customers. Nunavut Power was able to provide this reliable delivery of power for 99.89% of the time in 2008-2009. This is an improvement on 2007-2008's reliability rating of 99.74%.

The Corporation strives to improve reliability through continued improvements to Nunavut Power plants and distribution systems, some awaiting appropriate capital funding.

### **Efficiency:**

Plant efficiency is a critical means of reducing costs through a reduction of fuel consumption. Employees at the plant level contribute to efficient plants. QEC works to continuously improve efficiency through the use of new fuel efficient electronic engines and appropriate fuels. The expansion of district heating system in many of Nunavut's communities helps make use of residual engine heat by recovering it and distributing it to commercial customer buildings, to be used to heat their spaces and replacing some of their reliance on heating fuel. The district heating systems are also a small revenue source for the Corporation, making it an economically and environmentally sound decision for all parties.

## **Human Resources**

QEC's Human Resources department began a process of major change in 2008. With the acquisition of a new Director of Human Resources, and the subsequent hiring of a number of HR specialists, the department moved from a traditional, transactional corporate function to a corporate change-improvement and transformational business driver.

The department needed to address many ongoing issues, for instance the difficulty in recruitment in the North, the expired Collective agreement, and staff retention issues. Although staff retention at QEC is relatively high by Nunavut standards, the lack of skilled and educated employees in key positions for any length of time leads to inefficiencies at the corporate level, and includes a loss of corporate knowledge that can be invaluable.

Bargaining for the Collective Agreement began in the fall of 2008 and will continue into the next fiscal year.

One of the major focuses of the HR department has been the Corporation's Inuit Employment Plan. The development of a workforce that is representative of the Territory's population is a

key strategic goal for QEC. In 2008-2009, 55% of the Corporation's positions were filled by beneficiaries of the Nunavut Land Claims Agreement.

The Corporation has also been working to establish a relationship with the GN's Department of Education, in an effort to explore and identify a potential partnership which could lead to the increased hiring and training of beneficiaries of the Nunavut Land Claim in the future.

Qulliq Energy has developed and maintained a successful line apprenticeship program over the past five years. We are currently in the 3<sup>rd</sup> year of training for the second group of line apprentices, the first group having graduated in 2006. The Corporation also maintains a successful heavy-duty diesel mechanic apprenticeship program and provides significant beneficiary training in the fields of accounting, payroll and human resources. The Corporation is planning another Apprenticeship bootcamp in 2009 in order to identify a new group of cohorts for the four-year apprenticeship program.

Trades positions and skilled professionals remain a challenge to recruit and retain in the face of an active energy economy. QEC has begun to address this issue through the new corporate "branding" of the company in the employment market. This has already reached some level of success, most evident by the increased number of applications being received in Human Resources department.

Internally, the Corporation successfully completed a two year payroll conversion process that took QEC's payroll department from a paper-driven timesheet system to a paperless online timesheet system, streamlining the entire payroll process, as well as minimizing paper waste, and allowing for improved records management.

The Corporation needs to work with all of its employees to develop and enhance its workforce, bringing skilled and effective staff members to all of its operations. A detailed statement of the work force by community and function is contained in *Appendix 1*.

Appendix 1 Employment Summary by Category

**Employment Summary**  
Does not include Casuals

	Total Positions			Beneficiaries	
	Total Positions	Vacancies	% Capacity	Hired	% IEP
Executive	2	0	100%	1	50%
Senior Management	3	0	100%	0	0%
Middle Management	17	0	100%	4	24%
Professional	56	7	88%	12	24%
Paraprofessional	42	2	95%	27	68%
Administrative Support	43	2	95%	40	98%
<b>Total Department</b>	<b>163</b>	<b>11</b>	<b>93%</b>	<b>84</b>	<b>55%</b>

**Employment Summary, by Community**

Arctic Bay	200	2	0	100%	1	50%
Qikiqtarjuaq	205	2	0	100%	2	100%
Cape Dorset	210	2	0	100%	2	100%
Clyde River	215	2	0	100%	2	100%
Grise Fiord	220	2	0	100%	2	100%
Hall Beach	225	2	0	100%	2	100%
Igloolik	230	3	0	100%	3	100%
Iqaluit	235	65	7	89%	19	33%
Kimmirut	240	2	0	100%	0	0%
Pangnirtung	250	2	0	100%	2	100%
Pond Inlet	255	2	1	50%	1	100%
Resolute Bay	260	2	0	100%	2	100%
Sanikiluaq	265	2	0	100%	2	100%
Arviat	300	2	0	100%	2	100%
Baker Lake	305	31	1	97%	18	60%
Chesterfield Inlet	310	2	0	100%	2	100%
Coral Harbour	315	2	0	100%	1	50%
Rankin Inlet	320	12	1	92%	6	55%
Repulse Bay	325	2	0	100%	2	100%
Whale Cove	330	2	1	0%	1	
Cambridge Bay	410	11	0	100%	3	27%
Gjoa Haven	415	3	0	100%	3	100%
Kugluktuk	420	2	0	100%	2	100%
Kugaaruk	425	2	0	100%	2	100%
Taloyoak	430	2	0	100%	2	100%
<b>Total Community</b>	<b>163</b>	<b>11</b>	<b>93%</b>	<b>84</b>	<b>55%</b>	

**Employment Summary, By Headquarters & Region**

Headquarters	31	1	97%	18	60%
Region	132	10	92%	66	55%
<b>TOTAL</b>	<b>163</b>	<b>11</b>	<b>93%</b>	<b>84</b>	<b>55%</b>

# Key Projects in 2008-09

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## *Investing In...*

### Residual Heating Projects

#### *Arviat District Heating System Expansion*

In the fall of 2008, QEC completed an expansion of Arviat's pre-existing district heating system. The project allowed for the expansion of distribution piping attaching the recently completed high school to the system. This expansion will not only minimize greenhouse gas emissions by offsetting the fuel previously required to heat the school, but will also increase the revenue stream of Arviat's district heating system for the Corporation.

#### *Iqaluit District Heating System Expansion*

In the fall of 2008, QEC also completed an expansion of Iqaluit's pre-existing district heating system. The project allowed for the expansion of distribution piping attaching the City of Iqaluit's Reheat Station #1, Water Booster Station, the Nunavut Arctic College campus, and the recently built Justice Centre. This expansion will not only minimize greenhouse gas emissions by offsetting the fuel previously required to heat these customer buildings, but will also increase the revenue stream of Iqaluit's district heating system for the Corporation.

### Capacity Increases

#### *In Sanikiluaq, Repulse Bay and Kugaaruk*

The growing energy needs of the communities of Sanikiluaq, Repulse Bay and Kugaaruk required an increase in the firm capacity of their respective power plants.

In Sanikiluaq, the firm capacity of the plant was increased from 660ekW to 840ekW by replacing a 320ekW generator set with a new 550ekW generator set. The generator set that was removed was not near the end of its life so it was relocated to another community for further use.

In Repulse Bay, the firm capacity of the plant was increased from 660ekW to 880ekW by replacing two existing generator sets with two new 550ekW generator sets. The efficiency and reliability of the plant was also increased as the two replaced generator sets were experiencing frequent mechanical failures. The new generator sets are more fuel efficient than the ones they replaced and have improved the fuel efficiency of the plant.

In Kugaaruk, the firm capacity of the plant was increased from 660ekW to 880ekW by replacing two existing generator sets with two new 550ekW generator sets. The plant heating system was extensively upgraded on this project as a result of the cooling systems for each engine being modified to meet QEC's standard design. As in Repulse Bay, the efficiency of the plant was increased as the two new generator sets are more fuel efficient than the ones they replaced.

# Management's Responsibility Statement

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February 28, 2010

## Management Responsibility Statement

The financial statements of the Qulliq Energy Corporation for the year ended March 31, 2009, and all information contained in the annual report are the responsibility of the Corporation's management.

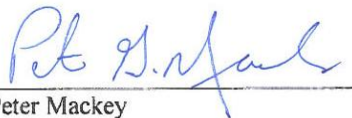
The financial statements have been prepared in accordance with rate regulated accounting. The financial statements include some amounts, such as the allowance for doubtful accounts and the provision for future removal and site restoration that are based on management's best estimates. Financial information presented in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained and the Corporation conducts its affairs in accordance with the requirements of applicable laws.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The external auditors have full and open access to the Board of Directors.

The Corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and issuing her report thereon.

On behalf of Management:



Peter Mackey  
President and Chief Executive Officer



Bob Pospisil, CMA  
Chief Financial Officer

# Auditor's Report

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Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the Board of Directors of the Qulliq Energy Corporation and the Minister of Energy

I have audited the balance sheet of the Qulliq Energy Corporation as at 31 March 2009 and the statements of comprehensive income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

The Corporation has prepared its financial statements using rate-regulated accounting. Under Canadian generally accepted accounting principles, rate-regulated accounting requires that rates be set at levels that will recover costs. As the Corporation is unable to recover its costs without significant direct or indirect financial support from the Government of Nunavut, it does not meet the criteria for rate-regulated accounting.

In my opinion, except for the effects of adjustments for the application of rate-regulated accounting described in Note 4 to the financial statements, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act* of Nunavut, I report that, in my opinion, these principles have been applied, after giving retrospective effect to the change in the method of accounting for inventories as explained in Note 3(a)(iii) to the financial statements, on a basis consistent with that of the preceding year.

The Auditor's Report for the 2008 fiscal year also contained a similar qualification.

Under section 91 of the *Financial Administration Act* of Nunavut, every territorial corporation shall annually submit a corporate plan for approval of the appropriate Minister. The Corporation did not submit a corporate plan for the year ended 31 March 2009.

Under section 100(1) of the *Financial Administration Act* of Nunavut, every public agency is required to submit its annual report to the appropriate Minister no later than ninety days after the end of its financial year. The Corporation had not met the deadline this year.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith. In addition, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Qulliq Energy Corporation Act* and the by-laws of the Corporation except for the failures to submit a corporate plan and to meet the deadline for submitting its annual report as described in the above paragraphs.

*Sheila Fraser*

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
28 February 2010

**QULLIQ ENERGY CORPORATION**  
**Statement of Comprehensive Income and Retained Earnings**  
**For the year ended March 31**  
**(\$000)**

	2009	2008
<b>Revenues</b>		
Sales of power (Note 5)	\$ 73,250	\$ 71,887
Fuel stabilization rider	15,901	9,593
Sales of heat	2,439	1,872
Other revenue (Note 6)	3,930	3,560
<b>Total revenues</b>	<b>95,520</b>	<b>86,912</b>
<b>Expenses</b>		
Fuel and lubricants	28,932	28,071
Salaries, wages and benefits	18,933	17,747
Fuel costs recovered by fuel stabilization rider	15,901	9,593
Supplies and services	13,279	15,694
Amortization of property, plant and equipment	8,117	8,152
Interest expense (Note 7)	3,754	4,304
Travel and accommodations	3,412	3,332
Bad debts	2,383	188
Loss on disposal of assets	80	-
<b>Total expenses</b>	<b>94,791</b>	<b>87,081</b>
<b>Income (loss) before Government funding</b>	<b>729</b>	<b>(169)</b>
<b>Government funding</b>		
Government of Nunavut (Note 8)	1,573	-
Amortization of deferred capital funding	540	-
<b>Total government funding</b>	<b>2,113</b>	
<b>Net comprehensive income (loss) for the year</b>	<b>2,842</b>	<b>(169)</b>
<b>Retained earnings, beginning of year as previously reported</b>	<b>48,672</b>	<b>48,841</b>
<b>Retained earnings, end of year</b>	<b>\$ 51,514</b>	<b>\$ 48,672</b>

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



**QULLIQ ENERGY CORPORATION**

**Balance Sheet**

**As at March 31**

**(\$000)**

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash – restricted	\$ 769	\$ 760
Accounts receivable (Note 9)	34,465	23,885
Inventories (Note 10)	9,986	8,845
Prepaid expense	571	620
Due from the Government of Nunavut	-	556
	<b>45,791</b>	34,666
<b>Non-current assets</b>		
Property, plant & equipment (Note 11)	150,738	140,275
	<b>\$ 196,529</b>	\$ 174,941
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 12)	\$ 11,206	\$ 4,275
Accounts payable and accrued liabilities (Note 13)	11,582	11,208
Deposits payable (Note 14)	2,441	2,895
Due to Petroleum Products Division (Note 15)	8,915	3,756
Current portion of long term debt (Note 16)	3,552	3,419
Current portion due to Government of Nunavut (Note 17)	510	510
Regulatory liability (Note 4)	474	169
	<b>38,680</b>	26,232
<b>Non-current liabilities</b>		
Long term debt (Note 16)	63,021	66,572
Deferred capital contribution (Note 18)	6,960	-
Due to the Government of Nunavut (Note 17)	3,071	3,581
Fuel tax payable to the Government of Nunavut (Note 19)	1,359	-
Dividend payable (Note 20)	720	720
Other liabilities (Note 21)	31,204	29,164
	<b>145,015</b>	126,269
<b>Shareholder's Equity</b>		
Retained earnings	51,514	48,672
	<b>\$ 196,529</b>	\$ 174,941

Commitments and contingencies (Note 22)

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

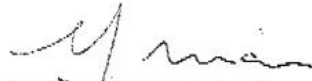
**QULLIQ ENERGY CORPORATION**  
**Balance Sheet**  
**As at March 31**  
**(\$000)**

**Approved on behalf of the Board:**



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Simon Merkosak  
Chairman of the Board



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Gordy Main  
Director

**QULLIQ ENERGY CORPORATION**  
**Statement of Cash Flow**  
**For the year ended March 31**  
**(\$000)**

	2009	2008
<b>Operating activities</b>		
Cash received from customers	\$ 90,142	\$ 80,918
Cash paid to suppliers and employees	(74,575)	(70,062)
Interest paid (Note 7)	(4,620)	(4,721)
Funding from the Government of Nunavut	1,033	-
Interest received	24	121
Unclaimed customer deposits	(8)	(12)
<b>Cash provided by operating activities</b>	<b>11,996</b>	<b>6,244</b>
<b>Financing activities</b>		
Funding from the Government of Nunavut	2,000	-
Proceeds from issuance of long term debt	-	8,000
Repayments of long term debt (Note 16)	(3,419)	(3,428)
Due to the Government of Nunavut (Note 17)	(510)	(510)
<b>Cash (used in) provided by financing activities</b>	<b>(1,929)</b>	<b>4,062</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(17,004)	(11,297)
Proceeds from disposition of assets	6	180
<b>Cash used in investing activities</b>	<b>(16,998)</b>	<b>(11,117)</b>
<b>Net decrease in cash</b>	<b>(6,931)</b>	<b>(811)</b>
<b>Bank indebtedness, beginning of year</b>	<b>(4,275)</b>	<b>(3,464)</b>
<b>Bank indebtedness, end of year</b>	<b>\$ (11,206)</b>	<b>\$ (4,275)</b>

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

# Notes to the Financial Statements

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## 1. The Corporation

### Authority

The Corporation is a territorial Crown corporation and operates in accordance with Part IX of the *Financial Administration Act* of Nunavut and the *Qulliq Energy Corporation Act*. The Corporation is exempt from the payment of income taxes.

### Mandate

The Corporation's mandate is to provide energy to residents and businesses in Nunavut on a safe, reliable and efficient basis and in a manner which minimizes the impact on the environment.

The Corporation is also mandated to plan and provide for energy self-reliance for Nunavut and inform consumers on conservation approaches.

The Corporation supplies electricity to its customers through the operation of 27 independent diesel generation plants and distribution systems in 25 communities in Nunavut. The Corporation supplies heat through 10 residual heat systems connected to 10 of those plants.

### Economic dependence

The Corporation is economically dependent on the Government of Nunavut, which directly and indirectly, accounts for the majority of the Corporation's sales of power. The Government of Nunavut also guarantees the Corporation's debt.

Additional details on the transactions and balances related to the Government of Nunavut are provided in the notes to the financial statements below.

## 2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The regulatory accounting practices adopted by QEC may differ from the accounting practices otherwise applied by unregulated enterprises. The Corporation recognizes a regulatory asset or liability when, based on the decisions of the rate-regulator, there is reasonable assurance that it will be able to recover from or be required to refund certain amounts to customers in the future. The accounting effects of rate regulations are described in Note 4.

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

A summary of significant accounting policies are as follows:

**(a) Financial Instruments**

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

*Held for trading*

A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short-term. Financial assets classified as held for trading are measured at fair value with changes in fair value recognized in profit or loss. As at March 31, 2009, the only financial asset designated as held for trading by the Corporation was cash.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. The Corporation's loans and receivables are comprised of trade accounts receivables.

*Other financial liabilities*

Bank indebtedness, accounts payable and accrued liabilities, deposits payable, due to Petroleum Products Division, dividend payable, long term debt, due to the Government of Nunavut and fuel tax payable to the Government of Nunavut are classified as other financial liabilities and are subsequently measured at amortized cost using the effective interest rate method. At inception, the estimated fair values of bank indebtedness and accounts payable and accrued liabilities are assumed to approximate their carrying amounts. The amounts Due to Petroleum Products Division, dividend payable, Due to the Government of Nunavut and fuel taxes due to the Government of Nunavut are related party transactions measured at their carrying amount or exchange amount.

*Other policy decisions:*

Transaction costs are expensed as incurred.

Purchases and sales of financial assets are accounted for at trade dates.

**(b) Government contributions**

Government contributions approved for capital projects are recognized as Capital Funds Advanced. These contributions are reclassified to Deferred Capital Contributions as the funds are expended. When the projects are completed and are placed into service, the deferred funds are amortized to revenue on the same basis as the related project.

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

Government contributions in aid of operations are recorded as revenue on the accrual basis.

**(c) Measurement uncertainty**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could materially differ from these estimates.

The more significant management estimates relate to the fair value of financial instruments, the determination of the allowance for doubtful accounts; the estimated useful service life of property, plant and equipment; the estimated provision for future removal and site restoration; and the provision for employee future benefits.

**(d) Revenues**

Sales of power, fuel stabilization rider and sales of heat are recognized on an accrual basis and are calculated based on utility meters. The majority of other revenue is recognized on an accrual basis and is calculated on a per unit, fee for service basis. Revenues include an accrual for services provided but not yet billed.

**(e) Inventories**

Inventories consist mainly of fuel, supplies and lubricants. Fuel is valued at the lower of cost and replacement cost, with the cost being determined on a weighted average basis. Supplies and lubricants are valued at the lower of cost and replacement cost, with the cost being determined on a first in first out basis.

**(f) Property, plant and equipment**

Property, plant and equipment are recorded at original cost less accumulated amortization. Costs include contracted services, direct labor, materials and supplies, a proportionate share of overhead costs and an allowance for interest capitalized on construction projects. Property, plant and equipment assumed on commencement of operations were transferred from Northwest Territories Power Corporation at their net book value. Amortization of property, plant and equipment is provided on a straight-line average group useful life basis using the following range of rates:

	Estimated Useful Life	Rates
Generation assets	20 – 40 years	2.9% - 5.2%
Distribution assets	5 – 40 years	2.6% - 5.0%
Other assets	5 – 40 years	2.6% - 20.0%

Assets under construction are not amortized until put into production.

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

**(g) Contributions in aid of construction**

Contributions are required from customers whenever the costs of extending services exceed standard service costs. These contributions are deferred and recognized as revenue on the same basis as the amortization on the related property, plant and equipment.

**(h) Asset retirement obligations**

The Corporation may have asset retirement obligations related to its generation and distribution assets, however as the majority of these assets are expected to be maintained and operated indefinitely, the present value of future cash flows could not be calculated and thus a future retirement obligation is not reasonably determinable. The Corporation intends to recognize asset retirement obligations when the timing and cost can be reasonably estimated.

**(i) Environmental liabilities**

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. The Corporation recognizes environmental liabilities when the Corporation is obligated to incur such costs and the costs of remediation can be reasonably estimated. The Corporation reviews its estimates of future environmental liabilities on an on-going basis.

**(j) Employee future benefits**

**(i) Pension plan**

Eligible employees participate in the Public Service Pension Plan (the Plan) administered by the Government of Canada. The Corporation's contributions to the Plan are expressed as a percentage of employees' contributions. The percentage may fluctuate from year to year depending on the experience of the Plan. The Corporation's contributions are recorded as an expense on a current year basis and represent the total pension obligations of the Corporation. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Plan. The Corporation's contributions reflect the full costs as employer.

**(ii) Non-pension benefits**

Under the terms and conditions of employment, eligible employees may earn non-pension benefits for resignation, retirement and removal costs based on years of service and final salary. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is based on management's best estimates and is accrued as a liability as employees render service.

**(k) Contingencies**

The contingencies of the Corporation are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, an estimated liability is accrued.

### 3. Accounting changes

#### (a) Adoption of new accounting standards

The Canadian Institute of Chartered Accountants (CICA) issued the following new accounting standards which became effective for the fiscal year ended March 31, 2009:

(i) Section 1400 – General Standards of Financial Statement Presentation – This standard includes requirements to assess and disclose the Corporation’s ability to continue as a going concern. The adoption of the new standard did not impact on the Corporation’s financial position or results of operations.

(ii) Section 1535 – Capital Disclosures – This standard requires the disclosure of both qualitative and quantitative information, which allows the users of the financial statements to evaluate the Corporation’s objectives, policies, and processes for managing capital. Whether or not the Corporation has complied with its capital requirements and the consequences of non-compliance are also required to be disclosed. The Corporation has provided the required disclosure in note 24.

(iii) Section 3031 – Inventories – QEC reclassified its major spare parts and standby equipment previously included in inventories to property, plant and equipment. Prior period comparative amounts were restated in accordance with the transition provisions. The inventories reclassified as at March 31, 2009 were valued at \$3,279 (2008 - \$2,682) and have been identified in Note 11 as Significant spare parts.

(iv) Section 3862 - Financial Instruments - Disclosure - This standard requires enhanced disclosures that enable users to evaluate the significance of financial instruments on the Corporation's financial position and performance; the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the year and at the balance sheet date; and how the Corporation manages those risks. The incremental disclosures required as a result of adoption of this new standard are disclosed in note 23.

(v) Section 3863 - Financial Instruments - Presentation - This standard establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset. The required disclosures can be found in note 23.



QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

**(b) Future accounting changes**

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting standards which will become effective for the Corporation's 2009-2010 fiscal year:

(i) Section 3064 - Goodwill and Intangible Assets - This section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It is anticipated that adoption of this standard will not have a material impact on the Corporation's financial statements.

(ii) During the year, the Public Sector Accounting Board (PSAB) revised its classifications for government organizations by eliminating the classification of Government Business Type Organization (GBTO). The Corporation is currently classified as a GBTO and is required to re-assess its classification in accordance with the PSA Handbook. The Corporation has re-assessed its classification, concluding it is an Other Government Organization (OGO). As an OGO, the Corporation has determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be the standards issued by PSAB. The Corporation will adopt the standards issued by PSAB for its fiscal year beginning April 1, 2011. The Corporation is currently evaluating the impact of the adopting of these standards.

(iii) Accounting for rate regulated operations - In December 2007, the CICA made the following changes to the standards for rate-regulated accounting: (a) the temporary exemption in Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation was removed; and (b) AcG-19, Disclosures by Entities Subject to Rate Regulation, was amended for changes in Section 1100 as well as changes in Section 3465 dealing with future income tax liabilities and assets. The changes to Section 1100 are applicable prospectively to the Corporation's fiscal year beginning on April 1, 2009.

(iv) Financial instruments - disclosures, Section 3862 - In June 2009 the CICA made amendments to this Section to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises and other entities that choose to apply this Section. These amendments apply to Corporation's fiscal year ended March 31, 2010.

## 4. Effects of rate regulation

### Utilities Rate Review Council

The Corporation is subject to the *Utilities Rate Review Council Act* for the establishment of rates and terms and conditions of service. The purpose of the Utilities Rate Review Council (URRC) is to advise the Minister of Energy on rates and terms and conditions of service. Final approval of the rates and terms and conditions of service rests with the Minister and the Government of Nunavut. As the URRC is appointed by the Government of Nunavut and the Corporation is an agency of the Government, the Corporation and the URRC are related parties. The rate recommendations of the URRC are based on a cost of service mechanism, where the objective is to i) establish revenue that is sufficient to recover the forecasted operating costs of provided regulated services, including amortization; and ii) to provide a fair and reasonable return on utility investments. The rate of return provided for in the February 21, 2005 Ministerial Instruction is 9.6%.

### Allowance for funds used during construction

The Corporation capitalizes an allowance for funds used during construction (AFUDC), based on the most recent cost of capital of the Corporation.

### Financial statement effects of rate regulation

Some regulatory assets and liabilities are accounted for differently in these financial statements than they would have been in the absence of rate regulation.

The Corporation defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenue in the statement of comprehensive income as these amounts are collected from or refunded to customers through future rates.

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

	<u>2009</u>	<u>2008</u>
<b>Regulatory liability</b>		
Provision for future removal and site restoration	\$ <u>19,498</u>	\$ <u>18,746</u>
Fuel stabilization fund	\$ <u>474</u>	\$ <u>169</u>

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

*Provision for future removal and site restoration (FRSR)*

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

The remaining recovery period is indeterminate due to the amounts added to the provision and the amounts drawing down the balance of the provision each year. The amount by which the provision 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. However, the provision is not expected to be reduced by any significant amounts until operating sites used by the Corporation are decommissioned.

In the absence of rate regulation, future removal and site restoration costs would be limited to asset retirement obligations and environmental liabilities and actual removal and site restoration costs would be expensed as incurred if they did not relate to asset retirement obligations or environmental liabilities. Therefore, the effect of rate regulation was to increase amortization expense by \$866 (2008 - \$830), and decrease removal and restoration expense by \$115 (2008 - \$460), resulting in a net decrease to net income in the amount of \$751 (2008 - \$370). In the absence of rate regulation, it is anticipated that the liability would not be recognized for \$19,498 (2008 - \$18,746).

*Fuel stabilization fund*

The fuel stabilization fund (the fund) was assumed by the Corporation, with a nil balance, effective April 1, 2005 by Ministerial Instruction dated February 21, 2005 relating to the general rate application. The fund mitigates the impact of volatile changes on utility rates from changes in fuel prices. The increases and decreases in fuel costs over the approved budgeted amount are deferred until the fund reaches \$1 million, or is forecasted to reach \$1 million within a six month period, at which time the Corporation can apply to the URRC for a fuel rate rider to recover the additional costs from rate customers, or refund customers in the event that fuel costs were lower than budgeted. The amount of this liability is expected to be refunded to customers within the next year.

In the absence of rate regulation, GAAP would require that actual fuel costs be included in fuel expenses. At the end of the year the fund had a surplus balance of \$474 (2008 - \$169) and therefore actual fuel costs are included in the fuel expenses.

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
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(\$000)

*Net impact of rate regulation*

		<b>2009</b>		<b>2008</b>
FRSR collected from customers	\$	(866)	\$	(830)
FRSR cost incurred in the year		115		460
Net impact of rate regulation	\$	(751)	\$	(370)

**5. Sales of power**

		<b>2009</b>		<b>2008</b>
Commercial customers	\$	40,762	\$	39,772
Residential customers		31,216		30,844
Electrical streetlights and private area lighting		1,272		1,271
	\$	73,250	\$	71,887

Sales to residential customers are broken down as follows:

		<b>2009</b>		<b>2008</b>
Earned from the Public Housing Power Support Program on behalf of customers	\$	12,923	\$	12,476
Charged directly to residential customers		11,213		11,247
Earned from the Territorial Power Support Program on behalf of customers		7,080		7,121
	\$	31,216	\$	30,844

The Corporation administers the Territorial Power Support Program for the Government of Nunavut. This program subsidizes qualifying residential customers to 50% of the Iqaluit base rate on the first 700 kWh consumed each month between April and September, and on the first 1,000 kWh consumed each month between October and March. The Corporation invoices the Government on a monthly basis for the power subsidies and applies the amounts to the individual customer invoices.

The Corporation is paid to administer the Public Housing Power Support Program for the Government of Nunavut. This program subsidizes qualifying residential customers living in public housing by supplementing the customer the difference between the approved residential rate and 6.0 cents per kWh. The Corporation invoices the Local Housing Organizations in Nunavut on a monthly basis for the power subsidies and applies the amounts to the individual customer invoices.

QULLIQ ENERGY CORPORATION  
Notes to the Financial Statements  
March 31, 2009  
(\$000)

## 6. Other revenue

	2009	2008
Administration and other service fees	\$ 2,093	\$ 1,643
Gain on sale	-	179
Housing recoveries from employees	688	719
Amortization of contributions in aid of construction	844	716
Pole rentals	305	303
	\$ 3,930	\$ 3,560

## 7. Interest expense

	2009	2008
Interest on long term debt	\$ 4,334	\$ 4,453
Interest and bank charges	286	267
Less: Interest capitalized on construction projects	(866)	(416)
	\$ 3,754	\$ 4,304

## 8. Government funding

During February 2008, the Corporation suffered a major mechanical failure that resulted in a large scale power outage in Rankin Inlet. Included in the 2008 financial statements are expenditures of \$1,218 (\$746 operating expenses, and \$472 capital expenditures) that relate to this loss. On May 20, 2008 the Government of Nunavut, by Supplementary Appropriation, recorded a decision to make a one-time 2008-2009 contribution to the Corporation of \$1,573 in relation to the mechanical failure. The Corporation incurred additional expenditures with respect to the Rankin Inlet outage in excess of \$355 in the current fiscal year

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<b>9. Accounts receivable</b>			<b>2009</b>			<b>2008</b>
	Gross	Allowance for doubtful accounts	Net		Net	
Accounts receivable:						
Residential and commercial	\$ 14,350	\$ 2,312	\$ 12,038		\$ 10,338	
Government of Nunavut and territorial crown corporations	13,057	419	12,638		5,499	
Housing Organizations	8,400	1,589	6,811		6,320	
Other	3,676	698	2,978		1,728	
	\$ 39,483	\$ 5,018	\$ 34,465		\$ 23,885	

## 10. Inventories

	<b>2009</b>	<b>2008</b>
Fuel	\$ 8,939	\$ 7,772
Supplies and lubricants	1,047	1,073
	\$ 9,986	\$ 8,845

## 11. Property, plant and equipment

	<b>2009</b>		<b>2008</b>	
	Cost	Accumulated amortization	Net book Value	Net book value
Generation	\$ 147,483	\$ 58,031	\$ 89,452	\$ 91,692
Distribution	27,035	12,337	14,698	12,904
Other (including significant spare parts)	34,665	12,162	22,503	23,148
	209,183	82,530	126,653	127,744
Construction in progress	24,085	-	24,085	12,531
	\$ 233,268	\$ 82,530	\$ 150,738	\$ 140,275

Included in net additions to construction in progress of \$11,554 are engineering and direct administration expenses capitalized during the year of \$939 (2008 - \$938) and interest capitalized during the year of \$866 (2008 - \$416).

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The Corporation has approved capital expenditures of \$10,710 in property, plant and equipment in the upcoming fiscal year. Commitments in the amount of \$2,440 have been made in relation to upcoming capital expenditures.

Total expenditures for site restoration were \$115 (2008 - \$460) during the year. Included in amortization expense is an \$866 (2008 - \$830) provision for future removal and site restoration of property, plant and equipment.

## 12. Bank indebtedness

The Corporation has a bank credit facility with a limit of \$24,000. There is an additional line of \$10,000 for capital expenditures. Interest charged on the overdraft is at prime (2009 varied from 2.25% - 4.75%; 2008 varied from 5.25% - 6.25%). The balance on the credit facility was \$10,437 net of restricted cash \$769 at March 31, 2009 (2008 - \$3,515). The credit facility is guaranteed by the Government of Nunavut.

## 13. Accounts Payable and Accrued Liabilities

	2009	2008
Trade Payables	\$ 6,449	\$ 5,366
Payroll Taxes and Benefits Payable	3,310	1,885
Current portion of Fuel Tax Payable to the Government of Nunavut	1,359	2,635
Accrued Liabilities	309	855
GST Payable	155	467
	<u>\$ 11,582</u>	<u>\$ 11,208</u>

## 14. Deposits Payable

	2009	2008
Project Deposits Payable	\$ 1,471	\$ 1,784
Customer Utility Deposits Payable	770	762
Holdbacks	200	349
	<u>2,441</u>	<u>2,895</u>

## 15. Due to Petroleum Products Division

The amount due to the Petroleum Products Division of the Government of Nunavut as at March 31, 2009 was \$8,915 (2008 - \$3,756). This amount represents fuel deliveries received before March 31, 2009 for which invoices were not received until after March 31, 2009.

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## 16. Long term debt

	2009	2008
6.809% redeemable 20 year amortizing debenture, due September 27, 2021. Blended semi-annual payments of \$2,848 with a balloon payment of \$17,502 at the end of the term.	\$ 54,039	\$ 55,958
Non-revolving floating rate term loan facility with payments of \$58 due monthly beginning on April 30, 2007 with the final payment due on March 31, 2017. Interest is at bank prime.	5,600	6,300
Non-revolving floating rate term loan facility with payments of \$67 due monthly beginning on Nov 21, 2007 with the final payment due on October 21, 2017. Interest is at bank prime.	6,934	7,733
	66,573	69,991
Less current portion of long term debt	3,552	3,419
	\$ 63,021	\$ 66,572

The prime rate paid by the Corporation in 2009 varied from 2.25% to 4.75% (2008 – 5.25% to 6.25%).

Scheduled principal debt repayment amounts are as follows:

2010	\$3,552
2011	3,694
2012	3,845
2013	4,008
2014	4,182
2015 to 2021	<u>47,292</u>
Total	<u>\$66,573</u>

Section 25 of the *Qulliq Energy Corporation Act* requires the Corporation's borrowings not to exceed three times its equity at any time. The Corporation's borrowings were 1.51 times its equity at March 31, 2009 (2008 – 1.55 times).

The long term debt is guaranteed by the Government of Nunavut. In accordance with the Section 3855, CICA Handbook, long term debt is classified as other financial liabilities and reported at amortized cost. The fair value of the long term debt is \$66,459 (see Note 23).



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## 17. Due to the Government of Nunavut

The total amount of \$3,581 (2008 - \$4,091) Due to the Government of Nunavut (with \$510 being the current portion) is for its payment, on behalf of the Corporation, of the amount needed to settle the division with NWT Power Corporation. The amount bears no interest and is repayable over 10 years via annual payments of \$510 with a final payment of \$521 on October 1, 2015.

In accordance with the Section 3855, CICA Handbook, Due to the Government of Nunavut is classified as other financial liabilities and reported at amortized cost. The fair value of the amount due to the Government of Nunavut is \$2,754 (see Note 23).

## 18. Deferred Capital Contribution

Balance, beginning of year	\$	-	\$	-
Government of Nunavut funding		7,500		-
Amortization of deferred capital spending		(540)		-
Balance, end of year	\$	6,960	\$	-

## 19. Fuel tax payable to the Government of Nunavut

In March 2009, an agreement was reached with the Government of Nunavut to have the Corporation pay fuel tax arrears for fiscal years ending March 31, 2008 (\$1,345) and March 31, 2009 (\$1,373) over a twenty-four month period. Payments of \$1,359 will be made in fiscal year ending March 31, 2010 and \$1,359 will be made in the fiscal year ending March 31, 2011.

## 20. Dividend

In the current year there was no dividend declared by the Corporation. The amount recorded as dividends payable is in relation to the 2007 year. Pursuant to Section 29 of the *Qulliq Energy Corporation Act*, the Government of Nunavut on September 20, 2006 directed the Corporation to declare a dividend of 1% of the value of the QEC operating budget of \$71,980. Therefore, a dividend of \$720 was declared for the 2006-2007 year.

## 21. Other liabilities

Regulatory liability (Note 4)	\$	19,498	\$	18,746
Contributions in aid of construction		10,803		9,563
Employee future benefits		903		855
	\$	31,204	\$	29,164

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The Corporation and all eligible employees contribute to the Public Service Pension Plan (the Plan). The Plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index.

Contributions to the Plan were as follows:

		<b>2009</b>		<b>2008</b>
Employer's contributions	\$	1,371	\$	1,372
Employee's contributions		702		648
Total contributions	\$	2,073	\$	2,020

The Corporation also provides resignation, retirement and removal benefits to its employees based on years of service and final salary. These benefits are not pre-funded and thus have no assets resulting in a plan deficit equal to the accrued benefits obligation. The liability for these benefits is as follows:

		<b>2009</b>		<b>2008</b>
Accrued benefit obligation, beginning of year	\$	993	\$	963
Costs for the year		137		57
Benefits paid		(73)		(27)
Accrued benefit obligation, end of year		1,057		993
Less current portion included in accrued liabilities		(154)		(138)
Total employee future benefits	\$	903	\$	855

## 22. Commitments and contingencies

### 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:

2010	\$ 1,263
2011	824
2012	460
2013	194
2014 and thereafter	<u>142</u>
Total	<u>\$ 2,883</u>

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### **Purchase commitments**

At March 31, 2009, the Corporation had made purchase commitments of \$21,470 to purchase fuel in the fiscal year ending March 31, 2010. This amount is due to be paid in the next fiscal year.

### **Litigation**

In the normal course of operations, the Corporation could become party to future claims and legal proceedings. Management is of the opinion that adequate provisions have been made for any disbursements that could stem from future legal actions and does not foresee any adverse affect of such potential legal actions on the financial position or operating results of the Corporation.

### **Collective Agreement**

The Corporation's collective agreement with its Union employees expired on December 31, 2007. The Corporation and the Union reached a new collective agreement in June, 2009. The Corporation has made a provision in its accounts of \$565 for retroactive wage payments resulting from this new collective agreement.

### **Environmental liabilities**

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to past or present activities of the Corporation, is considered probable and the costs can be reasonably estimated. Apart from the approved regulatory provision for future removal and site restoration, significant environmental costs have been identified by the Corporation; however, a provision for environmental liabilities was not recognized because the Corporation believes it is not responsible for these remediation costs. A provision for environmental liabilities will be accrued in the financial statements if it is determined that the Corporation is liable for the remediation of a site that is contaminated.

### **Other**

Refer also to notes 16, 17 and 19 for disclosures regarding other commitments of the Corporation as at March 31, 2009

## **23. Financial Instruments**

The Corporation's financial instruments classified as loans and receivables consist of accounts receivable. The amortized cost using the effective interest method approximates the fair value due to their short term nature.

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Financial instruments held as other financial liabilities are bank indebtedness, accounts payable and accrued liabilities, Due to Petroleum Products Division, dividend payable, Due to the Government of Nunavut and long term debt. Management estimates that the carrying values of the financial liabilities, with the exception of debenture debt and Due to the Government of Nunavut, approximate their fair value due to their short-term maturity. The fair value of the debenture debt has been calculated using the future cash flows (principal and interest) of the outstanding debt instruments, discounted at current market rates available to the Corporation for the same or similar instruments. The fair value of the Due to the Government of Nunavut balance has been estimated using the Corporation's interest rate for normal borrowings since the Due to the Government of Nunavut balance bears no interest.

The following table shows the carrying values and estimated fair values of the Corporation's financial instruments at March 31, 2009:

	2009		2008	
	Book value	Fair value	Book value	Fair value
Held for trading				
Cash	\$ 769	\$ 769	\$ 760	\$ 760
Loan and receivables				
Accounts receivable	34,465	34,465	23,885	23,885
Other financial liabilities				
Bank indebtedness	11,206	11,206	4,275	4,275
Accounts payable and accrued liabilities	11,582	11,582	11,208	11,208
Deposits payable	2,441	2,441	2,895	2,895
Due to Petroleum Products Division	8,915	8,915	3,756	3,756
Dividend payable	720	720	720	720
Due to the Government of Nunavut	3,581	2,754	4,901	3,102
Long term debt	66,573	66,459	69,991	69,908
Fuel tax payable to the Government of Nunavut	1,359	1,359	-	-

The Corporation is exposed to the following risks as a result of holding financial instruments:

**a) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation is exposed to credit risk through cash deposits with financial institutions and the sale of electricity and related services to domestic customers. For cash in interest bearing accounts and accounts receivable, the maximum exposure to credit risk is the carrying amount on the balance sheet. At the end of 2009, there were no known relevant concentrations of credit risk by type of customer or geography. Instead, our credit risk exposure is mainly influenced by individual customer characteristics.

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The credit risk related to accounts receivable is reduced by taking cash deposits from new customers. The size of the deposit varies depending on the risk exposure. Established customers or those with good credit are waived from having to provide us with a deposit.

Accounts receivable are generally due in 30 days and interest is charged after 60 days at the rate disclosed in the terms and conditions of service. The Corporation utilizes an allowance account for potential credit losses related to accounts receivable. The movement in the allowance account during the year was as follows:

	2009	2008
Balance, beginning of the year	\$ 2,626	\$ 2,061
Increase in the allowance account	2,392	565
Balance, end of the year	\$ 5,018	\$ 2,626

The aging analysis of accounts receivable that are past due but not impaired is as follows:

	past due 1 – 30 days	past due 31 – 60 days	past due 61 – 90 days	Past due more than 90days	Total
March 31,2009	\$ 8,687	\$ 2,092	\$ 878	\$ 4,386	\$ 16,043

With respect to accounts receivable past due but not impaired, based on credit history and credit ratings, there are no indications that customers will not be able to meet their obligations.

Management is not aware of any other impairment to financial assets. The Corporation's policy is to write down the value of impaired assets at the time that the impairment becomes known.

## **b) Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk to ensure sufficient liquid financial resources to finance operations and meet long-term debt repayments. The Corporation believes that it has access to sufficient capital through internally generated cash flows, government support and external resources including borrowing facilities to meet current spending forecasts.

The following table shows the maturity analysis of financial liabilities based on remaining contractual maturities (assuming no renewals):

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	less than 1 year	between 1 and 4 years	Greater than 4 years	Total
Accounts payable and accrued liabilities	\$ 11,582	\$ -	\$ -	\$ 11,582
Deposits payable	2,441	-	-	2,441
Due to Petroleum Products Division	8,915	-	-	8,915
Dividend payable	-	720	-	720
Due to Government of Nunavut	510	1,530	1,541	3,581
Long-term debt	7,552	22,356	70,646	100,554
Fuel tax payable to the Government of Nunavut	1,359	-	-	1,359
<b>Total</b>	<b>\$ 32,359</b>	<b>\$ 24,606</b>	<b>\$ 72,187</b>	<b>\$ 129,152</b>

### c) Market Risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate, because of changes in market prices. The Corporation is exposed to interest rate risk on its fixed and variable rate long-term debt and the non-interest bearing debt payable to the Government of Nunavut.

The Corporation's intention is to hold the fixed rate debt and the Due to the Government of Nunavut amount to maturity. Fluctuations in interest rates will have an impact on the fair value of these financial liabilities. The fair value of the fixed rate debt and the Due to the Government of Nunavut balance would increase by approximately \$495 if interest rates increased by 1% and decrease by approximately \$517 if interest rates decreased by 1%.

The Corporation is subject to interest rate cash flow risk on its variable rate long-term debt. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$133 upon applicable year end balances.

The Corporation is not subject to other significant market risks pertaining to its financial instruments.

### Impairment of Accounts Receivable

A provision for impairment of accounts receivable is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payment are considered indicators that accounts receivable are impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement as bad debt expense. When an account receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against bad debt expense in the statement of comprehensive income.

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## 24. Capital Management

The Corporation's capital structure as at March 31, 2009 and March 31, 2008 was as follows:

	<b>2009</b>	<b>2008</b>
Long term debt	\$ 66,573	\$ 69,991
Due to the Government of Nunavut	3,581	4,091
Retained earnings	51,514	48,672
<b>Total capital</b>	<b>\$ 121,668</b>	<b>\$ 122,754</b>

The Corporation's objectives when managing capital are to maintain sufficient capital to fulfill its mandate of providing energy to residents and businesses in Nunavut and to facilitate energy self-reliance in Nunavut.

The Corporation defines its capital as its retained earnings, long term debt and Due to the Government of Nunavut balance. The Corporation's opportunity to earn income is limited by the rates set by the Utility Rate Review Council. Rates are set to generate sufficient revenue to recover the forecasted operating costs of providing services and to provide a fair and reasonable return on utility investment.

There have been no changes to the Corporation's objectives and what it manages as capital during the period

## 25. Related party transactions

Qulliq Energy Corporation is a territorial Crown corporation and consequently is related to the Government of Nunavut and its agencies and territorial corporations. The Corporation provides utility services to, and purchases fuel, materials, supplies and other services from these related parties in the normal course of its operations. 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 these financial statements, are as follows:

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	<b>2009</b>	<b>2008</b>
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
Sale of power, heat and other	\$ (22,827)	\$ (20,229)
Territorial and housing subsidies to customers included in revenue	(18,780)	(18,431)
Other revenue	(2,662)	(1,823)
Purchase of fuel	36,443	30,714
Fuel tax	1,373	1,345
Salaries, wages and benefits	222	-
Other expenses	276	368
Balances at year-end:		
Accounts receivable – Direct power supply and other		
Government of Nunavut Departments and Agencies	10,820	2,605
Office of the Legislative Assembly	2	-
Petroleum Products Division	67	75
Nunavut Arctic College	31	24
Nunavut Development Corporation	69	1
Nunavut Housing Corporation and Local Housing	1,632	1,056
District Education Authorities	7	-
Workers Compensation Board	34	-
Accounts receivable – Territorial and housing subsidies		
Government of Nunavut Departments and Agencies	2,027	2,794
Nunavut Housing Corporation and Local Housing		
Organizations	6,768	5,264
Accounts payable and accrued liabilities		
Government of Nunavut Departments and Agencies	(1,480)	(2,970)
Nunavut Arctic College	(171)	-
Nunavut Housing Corporation and Local Housing		
Organizations	(39)	(24)



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## **26. Subsequent events**

In June 2009, the Corporation signed a new collective agreement with its Union employees (PSAC). As the prior agreement had expired on December 31, 2007, a result of the new agreement was retroactive wage payments of \$565 which have been recorded in the 2009 fiscal year.

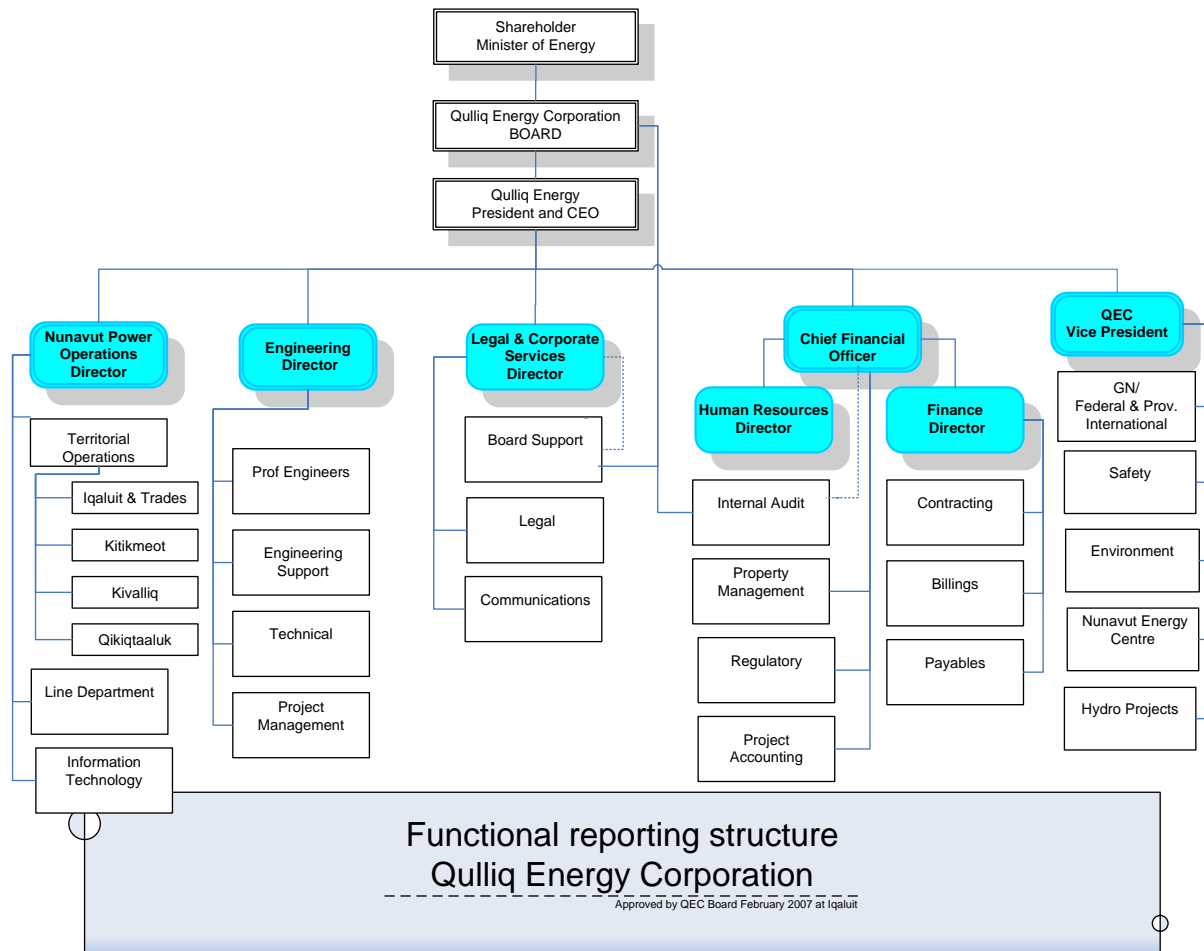
In August 2009, the Corporation purchased satellite networking equipment for its generating facilities in Iqaluit, Rankin Inlet, Cambridge Bay and Baker Lake at a cost of \$726.

In January 2010, an agreement was signed with the Canadian Northern Economic Development Agency to provide funding, in the amount of up to \$2,647, for the replacement of generators.

## **27. Comparative figures**

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

# Functional Reporting Structure



# Contact Information

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# Map of Nunavut

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