



Community and Government Services

Petroleum Products
Division

2018 – 2021
Amalgamated Annual
Report

CONTENTS

TABLE OF CONTENTS

CONTENTS	3
Table of Contents	3
About the Report	5
List of Acronyms	6
Key Responsibilities	7
Petroleum Products Revolving Fund	7
Stabilization Fund	7
PETROLEUM SUPPLY CHAIN	9
Annual Bulk Fuel Resupply	9
Fuel Source Location	10
Fuel Transportation	10
Fuel Sales and Distribution	11
KEY ACTIVITIES IN 2018-19	13
Fuel Supply and Transportation Agreement	13
KEY ACTIVITIES IN 2019-20	16
Petroleum Products Revolving Fund	16
Adoption of a Uniform, Territory-wide Pricing Structure	16
KEY ACTIVITIES IN 2020-21	17
Retail Prices	17
Petroleum Products Stabilization Fund	17
PPD Options Analysis	17
Early Purchase Strategy for 2021 Resupply	17
EARLY PRICE SETTING	19
Timing of Fuel Purchases and Relative Savings	21
General Comments on Oil Price Volatility	22
Methodology Regarding the Timing of Purchases	23
Risk Management	24
PETROLEUM PRODUCTS PROVIDED BY PPD	27
Product Standards	27
PETROLEUM PRODUCT PRICING	29
Petroleum Products Division (2018-19)	29
Petroleum Products Division (2019-20)	30
Petroleum Products Price List (Before and After Adjustment)	30
Petroleum Products Division (2020-21)	34
Retail Price Benchmarks	36
Product Cost Breakdown	37
Variations in Weighted Average (WA) Costs	38
Fuel Price Components (Nunavut Average)	40
PETROLEUM IMPORTS AND SALES	41
Imports	41
2018-19	41
2019-20	41
2020-21	41
Sales	41
BULK FUEL FACILITIES	43

Nunavut Fuel Context.....	43
Facility Age and Condition	44
Tank Inspections.....	44
New Tank Farm Process.....	45
Regulatory Compliance	45
Community Code Compliance Timeline	45
Bulk Fuel Facilities Upgraded in 2018-19	45
Bulk Fuel Facilities Upgraded in 2019-20	45
Bulk Fuel Facilities Upgraded in 2020-21	46
regulators.....	46
Sales Forecasting and Projections.....	46
Community Capacity Levels	46
CAPITAL PLANNING SUMMARY	47
Tracking Infrastructure Needs	47
ENVIRONMENT.....	48
Environmental Protection Compliance Orders (EPCOs)	48
Landfarming	50
Fuel Spills	50
2018-19	50
2019-20	50
2020-21	51
ENGINEERING	51
Standards and Criteria.....	51
Health and Safety	51
FINANCE	53
Operations and Accumulated Surplus	54
2018-19	54
2019-20	54
2020-21	54
Schedule of Expenses	54
2018-19	54
2019-20	55
2020-21	55
Statement of Financial Position.....	56
2018-19	56
2019-20	56
2020-21	56
Year-End Audit	57
2018-19	57
2019-20	57
2020-21	58
Petroleum Variances	59
2018-19	59
2019-20	59
2020-21	60
AUDITED FINANCIAL STATEMENTS	61
Nunavut Petroleum Products Revolving Fund	61

ABOUT THE REPORT

This document combines the 2018-19, 2019-20 and 2020-21 annual reports of operations for the Petroleum Products Division of the Department of Community of Government Services, Government of Nunavut. The report covers the periods of April 1st, 2018 – March 31st, 2019, April 1st2019 – March 31st, 2020, and April 1st, 2020 – March 31st, 2021.

The report presents the

- Annual Reports, and
- Consolidated financial statements of the Petroleum Products Revolving Fund (PPRF).

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS), as recommended by the Public Sector Accounting Board of Canada.

The Petroleum Products annual report may be downloaded from the Government of Nunavut's website at <https://assembly.nu.ca/taled-documents>.

LIST OF ACRONYMS

AP	Accounts payable
API	American Petroleum Institute
AVOP	Airside Vehicles Operators Permit
CEPA	Canadian Environmental Protection Act
CGS	Community and Government Services
DM	Deputy Minister
EPCO	Environmental Protection Compliance Order
FMB	Financial Management Board
GN	Government of Nunavut
GNWT	Government of the Northwest Territories
GST	Goods and Services Tax
HFO	Heavy fuel oil
IT	Information Technology
IQ	Inuit Qaujimajatuqangit
L	Litres
NHC	Nunavut Housing Corporation
NTCL	Northern Transportation Company Limited
NYMEX	New York Mercantile Exchange
PHC	Petroleum hydrocarbons
POS	Point of Sale
PPD	Petroleum Products Division
PPRF	Petroleum Products Revolving Fund
PPSF	Petroleum Products Stabilization Fund
PSAS	Public Sector Accounting Standards
PwC	PricewaterhouseCoopers
QEC	Qulliq Energy Corporation
RBOB	Reformulated Blendstock for Oxygenate Blending
RCMP	Royal Canadian Mounted Police
RFID	Radio Frequency Identification
RFP	Request for proposals
ULSD	Ultra Low Sulfur Diesel
WA	Weighted Average
WHMIS	Workplace Hazardous Materials Information System
WTI	West Texas Intermediate

CORPORATE OVERVIEW

KEY RESPONSIBILITIES

- To purchase, import and sell refined petroleum products in accordance with applicable financial regulations and strategic/operational plans and arrange for storage and delivery in a manner that will meet the evolving needs of developing Nunavut communities.
- To award, manage and train outsourced service providers responsible for the transportation, distribution and supply of refined petroleum products ensuring contractual obligations are met.
- To operate, maintain, inspect and direct the development of Nunavut's fuel storage and distribution infrastructure in accordance with emerging community requirements, rigorous maintenance schedules, evolving regulatory compliance requirements and in response to operational requirements of an Arctic jurisdiction.
- To respond judiciously to environmental hazards or spills in accordance with regulations; manage land farms to store and remediate materials that are contaminated by petroleum hydrocarbons; and train contractors on environmental safety, protection and sustainability.

PETROLEUM PRODUCTS REVOLVING FUND

PPD operates under the *Revolving Funds Act* (the Act). The Act sets up the mechanism to purchase, transport, store, distribute, sell, and supply refined petroleum products to the residents of Nunavut in a safe, economical, efficient and reliable manner.

Unlike most government operations, the expenses associated with PPD's activities must be offset by revenues from the sale of petroleum products. As such, a financial mechanism is required to allow the operating costs of PPD to be financed. The Petroleum Products Revolving Fund (PPRF) provides the financial resources to purchase and distribute the fuel consumed annually in communities across Nunavut.

The largest and most volatile input cost for PPD is the price of bulk fuel purchased on world markets. Given that crude oil markets are largely influenced by global events (e.g., international conflicts, natural disasters, demand growth changes, etc.) beyond the foresight and control of PPD, its forecasted and actual expenditures on bulk fuel (and, in turn, its cost of goods sold) can fluctuate dramatically (e.g., \$10's of millions) over both short- and long-term horizons. PPD is mandated to accommodate these changes via adjustments to its retail prices and adjusts its revenue forecasts accordingly. Due to the volatile nature of crude markets and the mechanisms by which PPD responds to these changes (i.e., retail price changes), PPD utilizes the PPRF rather than an appropriated budget like other government departments. The PPRF currently has a limit of \$250 million.

The PPRF operates similarly to a commercial line of credit that is used in the private sector to finance accounts receivable and an inventory of petroleum products. It provides working capital advances to finance inventory, accounts receivable, operating expenses, and applicable taxes. The authorized limit of the PPRF, which is the maximum amount by which the assets may exceed the liabilities, is \$200 million. PPD is required by the Act to recover any advances from the PPRF through the retail sales of petroleum products.

STABILIZATION FUND

The Act requires the PPRF to operate on a "break-even" basis. However, because of fluctuations in annual profits and losses, the Petroleum Products Stabilization Fund (PPSF) was established so that fuel prices did not have to be revised each year to accommodate these variances. The limit of the PPSF is +/- \$10 million, after which a

supplementary appropriation from the Government of Nunavut (GN) is required. The Petroleum Products Stabilization Fund accumulates the profits and losses of the PPRF and is similar to the retained earnings account recorded in the financial statements of a private sector company.

PETROLEUM SUPPLY CHAIN

PPD is responsible for the purchase, import and marine transportation, delivery, storage, and sale of petroleum products in Nunavut. The Division is involved, to some degree, in every step of the supply chain from bulk purchase to final delivery. This means that PPD:

- oversees Nunavut's annual bulk fuel supply;
- is responsible for the distribution of fuel to each community;
- owns, operates and administers the bulk fuel storage facilities in each community; and
- awards and administers local fuel delivery contracts.

2018-19 marked the first year of PPD's new, Territory-wide fuel supply and transportation agreement with new innovations in fuel pricing and three new fuel tankers added to the supplier's fleet.

ANNUAL BULK FUEL RESUPPLY

In 2018-19, Nunavut's fuel was provided under a new 5-year fuel supply and transportation agreement with AV Nunavut Fuels, an Inuit Owned Company backed by The Woodward Group of Companies. This agreement marked the first time that supply and transportation were combined under a single Nunavut-wide agreement. By doing so, PPD has benefitted from greater economies of scale and has received uniform transportation costs for the entire Territory.

The new agreement also comes with several innovations on the purchase of fuel. First, PPD changed its fuel price reference marker from Platt's and Petro Canada's Montreal Rack to the New York Mercantile Exchange (NYMEX). PPD selected this medium because of its direct correlation to movements in refined product costs and because NYMEX represents a wholesale exchange not subject to regional price fluctuations and environmental levies. This change has resulted in significant savings on the price of fuel.

The second change relates to the timing of fuel purchases, whereby the agreement provides three methods of purchasing fuel:

- 1) Early Price Setting
- 2) Deferred Price Setting
- 3) Load Port Pricing

Purchase Method #1: Early Price Setting

PPD may choose to secure fuel prices early in the year, between the months of December 1st to March 31st. This method is called Early Price Setting (previously referred to as "early purchase") and is conducted using futures contracts or by taking physical delivery of the product and storing it in southern tankage in advance of resupply. PPD utilized the early purchase option for its gasoline purchases in 2018-19, 2019-20 and 2020-21. This option was also used for the majority of PPD's diesel and Jet A-1 purchases in 2020-21.

Purchase Method #2: Deferred Price Setting

Under one of its purchase options, PPD may choose to secure product pricing under the Deferred Price Setting Option. The price is set based on the bill of lading date using the 3-day average. This option may be conducted based on the bill of lading for tankers loading outside of Canada.

Where a typical voyage from the load port to the contractor's storage facilities takes an average of two to three weeks, PPD has the option to lock in the price at any day during this 2- to 3-week voyage using one or multiple

days up to the point of discharge from the tanker or the expiry of the applicable NYMEX futures contract, whichever comes first. The applicable price will be the end of day settlement price for the applicable NYMEX futures contract.

PPD did not utilize the deferred price setting option in 2018-19, 2019-20 or 2020-21.

Purchase Method #3: Load Port Pricing

The default purchase option is what is known as load port pricing. In this scenario, PPD pays the rate of fuel at the time of loading from refinery to vessels destined for Nunavut. For 2018-19, PPD executed all its diesel and Jet A-1 purchases via load port pricing because of its later than expected award of the new supply and transportation agreement with AV Nunavut Fuels.

Load Port Pricing for all three products (#1 Ultra Low Sulfur Diesel (ULSD), Jet A-1, Premium Winter Grade Gasoline) will be calculated as follows: NYMEX New York Harbor Ultra-Low Sulfur Diesel Futures Settlements Average 3 Trading Days Settlement Amount for the Following Month converted to litres at 3.7854 litres per US Gallon in US funds. The contractor then adds the mark-up in US funds to the price. US funds is converted to Canadian funds based on the three-day Bank of Canada exchange rate average around the bill of lading.

For 2018-19 and 2019-20, PPD utilized the load-port pricing option for the majority of its diesel and Jet A-1 purchases. In 2020-21, PPD executed only minor volumes of fuel via load port pricing to accommodate in-season volume changes.

FUEL SOURCE LOCATION

Fuels typically come from refineries on the East Coast of Canada, the United States or in some cases overseas countries such as Finland or Japan. All bulk fuels are transported to Nunavut from the East Coast of Canada via oceangoing vessels owned and operated by Woodward's.

The source location of refined fuels purchased varies considerably from one year to the next. In 2018, PPD sourced all its purchased gasoline from Canadian markets, like 2017, whereas in previous years it was purchased from international markets (e.g., the Bahamas, Finland or the US). In 2018, kerosene-based products Jet A1 and diesel were sourced from American markets similar to 2015, 2016 and 2017, whereas from previous years, they were sourced from Canadian markets.

This variability in source location is due to PPD's practice of purchasing high-spec gasoline, which may only be readily available from one source location or another. Also, the price of fuel may vary depending on its source location hence, this too can be a determining factor in terms of the location from which PPD's supplier purchases its fuel. PPD always endeavors to purchase the highest spec product at the best possible price: product is tested at the load port by a third-party quality/quantity surveyor and is tested again before it is offloaded to Nunavut tanks; and finally, when the product is in the tank, PPD's quality contractor sends samples to a lab to perform analysis.

FUEL TRANSPORTATION

The 2018 resupply season was conducted under the new supply and transportation agreement with AV Nunavut Fuels and the Woodward Group of Companies. The new agreement saw a modernization of Woodward's fleet of tankers with four newly acquired ice-class tankers. The vessel particulars are as follows:

- Qikiqtaaluk W. - Canadian Flag, 2011, 21,680 cubic metres
- Kitikmeot W. - Canadian Flag, 2010, 21,680 cubic metres
- Kivalliq W. - Canadian Flag, 2004, 16,080 cubic metres

- Tuvaq W. - Canadian Flag, 2012, 8,554 cubic metres

The vessels were purpose built for Arctic conditions and feature the following:

- All fully double-hulled Ice Class vessels;
- Heated enclosed cargo dumping arrangement for operations in temperatures down to -40 Celsius;
- Main engine power for continuous operation in fast ice up to 0.5 metres thick unassisted;
- Modern navigational and communication equipment;
- Specialized towing arrangements to facilitate ice breaker towing assistance through multiyear solid ice conditions;
- Modern electronic pumping and gauging system for enhanced safety during petroleum transfer operations; and
- Crewed by Woodward's employees.

Woodward's is responsible for all fuel transportation operations up to the shore manifold where petroleum products are received by GN-owned pipelines. Operations from the shore manifolds into GN tank farms are the responsibility of PPD employees, typically PPD Officers, with the assistance of staff from the local fuel delivery contractor.

The "resupply season" for the transportation of bulk fuels typically begins in late June and ends late in October. Bulk fuels are purchased as required and permitted by the vessels' sailing schedules during this period.

The **2018-19** fuel resupply largely went as planned with no major incidents. The first community to receive its resupply in 2018 was Rankin Inlet on July 10th, followed by Chesterfield Inlet. The resupply season lasted 4 months and was completed late October with Kimmirut receiving the last of its deliveries for the year. There were no major incidents to report for the season.

The **2019-20** fuel resupply largely went as planned with no major incidents. The first community to receive its resupply in 2019 was Iqaluit on July 2nd. The resupply season lasted 4 months and was completed late October with Arviat receiving the last of its deliveries for the year. There were no major incidents to report for the season.

For the **2020-21** fuel resupply season, the first community to receive its resupply was Iqaluit on July 1st with the Woodward vessel Kitikmeot W resupplying 20.8 million litres diesel. The resupply season lasted 4 months and was completed later than usual in early November with Arviat receiving the last of its deliveries for the year. In 2020-21 PPD operated with its COVID-19 protocol in place to prevent the risk of transmission within the communities. The protocol provided that PPD officers would not board tankers nor would Woodward or Intertek crewmen travel within the community. This made the 2020 resupply more complex than normal and required the significant use of charter services to ensure that PPD officers could be transferred between the communities on time to avoid any demurrage fees with the marine carrier.

FUEL SALES AND DISTRIBUTION

In all Nunavut communities, except for Iqaluit, petroleum products are distributed by local fuel delivery contractors. These contractors are compensated on a per-litre commission basis. Tank farms, dispensing units, and fuel delivery trucks remain to the property of PPD, while fuel is sold and delivered within the communities by their respective suggested local fuel contractors.

All fuel delivery service agreements, except for Iqaluit, operate on a ten-year term. Most existing terms are set to expire on October 31st, 2026 but have the option for a one-year extension. In Iqaluit, PPD extended the agreement from December 1st, 2017 to November 30th, 2018, and subsequently received Cabinet approval to issue a new short-term (2-year) agreement for the period of December 1st, 2018 to November 30th, 2020 with the option for two 1-year extensions to allow for a contracting strategy review of the Iqaluit delivery model.

KEY ACTIVITIES IN 2018-19

FUEL SUPPLY AND TRANSPORTATION AGREEMENT

In March 2018, PPD awarded Nunavut's first ever, Territory-wide fuel supply and transportation agreement to AV Nunavut Fuels in partnership with Woodward's Group of Companies for a term of 5 years (2018-2022) plus 2 one-year extension options. The award was the result of over 10 months of strategy and planning aimed at lowering PPD's costs of product and reducing its risks. The following contract strategy changes were made:

1. Change in petroleum pricing reference marker

The former supply and transportation agreements (Eastern Arctic and Kitikmeot) referenced Petro Canada's Montreal Rack as the pricing medium for diesel and gasoline, and Platts New York Harbor for Jet A-1. PPD sought to avoid regional indices such as Edmonton or Montreal rack because their negotiated price may not be the most competitive in the long-term. With the GN only making a few purchases per year vs. many purchases on a weekly or daily basis, regional indices may be impacted by events or happenings that have nothing to do with world fuel prices. For example, a regional rack price could get inflated by a local disaster which impacts supply and temporarily drives up prices in a local region.

Another example that could drive up regional indices permanently is a supplier's cost of meeting pollution regulations specific to their province or state. This cost could potentially inflate some regional rack prices. Some provinces may choose a mechanism that imposes additional costs on local refineries and/or fuel distributors. These stakeholders would then, in turn, pass on their increased costs to consumers by adding these additional costs to their local truck "rack prices". This is not a problem for local consumers, but it is for users of the reference price outside of that region. For example, New York Harbor Platt's publication for September 8th, 2017, Regular Unleaded and Premium Unleaded Gasoline includes 11.7 US cents per gallon related mostly to pollution related credits. This add-on is USA specific. It turns out that this fee artificially inflates gas prices in some Canadian provinces that use New York Harbor Platt's to regulate their fuel prices. However, when the product is shipped from the USA to a foreign country, the fee is not relevant.

The NYMEX represents a wholesale exchange and is probably the best representation of a fair and competitive price for North America. NYMEX is a very liquid market for crude and refined oil products, along with other non-energy commodities, and is not subject to regional price fluctuations. From the pragmatic side, the move to NYMEX would also improve PPD's early purchase program by aligning it with industry standards and thereby reducing risk for both PPD and its supplier. For example, it is industry practice to price petroleum products either at the time of loading or based on futures contracts. Under the former agreements, futures contracts were executed by the supplier on a different pricing medium (NYMEX) while it billed PPD based on Montreal Rack prices. While the two pricing mediums are correlated, there was a risk that one party would benefit to the disadvantage of the other. The move to NYMEX reduced this pricing risk.

Another consideration for the move to NYMEX was the level of discount on NYMEX relative to Montreal Rack. The following table shows the price for both pricing mediums on the same day, adjusted to Canadian dollars.

*2017 data was used to due to the contracting phase occurring just prior to the 2018 awarding.

	(L) in CDN \$
27-Sep-17	
Montreal Rack #1 ULSD (Ultra Low Sulphur Diesel)	0.7490
Montreal Rack PUG (Premium Unleaded Gasoline)	0.7650
Platts FOB Barge (New York Harbour) Jet A-1	0.5862
27-Sep-17	
NYMEX NY Harbour ULSD Futures	0.6079
NYMEX RBOB Gasoline Futures	0.5454
Platts FOB Barge (New York Harbour) Jet A-1	0.6079

It was expected that revising the contract reference markers from the Montreal Rack Pricing included within the legacy agreement with Woodward's Oil Limited to the NYMEX New York Harbor ULSD Futures and NYMEX RBOB Gasoline Futures would yield significant savings. As a result of this revision, PPD calculated annualized costs savings of \$21,941,247 (11.25%) for the 2018 period. These cost savings identified are independent of any price fluctuations in the cost of oil and solely reflect the revision to the contract reference markers between the old and new agreement.

To verify these savings, PPD hired PricewaterhouseCoopers (PWC) to conduct an independent third-party verification. The findings from PWC were aligned with PPD's own internal assessment but yielded slightly higher savings of \$22,299,160 for the 2018 period. These savings are expected to transfer to subsequent years of the agreement and will go a long way to enabling Nunavut to be competitive in fuel pricing with Southern Canada, despite its geographic isolation and the higher operating cost associated with storage and delivery.

2. The move to a single, territory-wide supply and transportation agreement

To add context to this change, it is relevant to summarize the history of fuel supply and transportation in Nunavut: At the time of Nunavut's creation, Northern Transportation Company Limited (NTCL) was the exclusive supplier and transporter of fuel to all communities in the territory under two supply and transportation agreements: The Eastern and Western Arctic. In 2003, the GN separated the supply and transportation components of the Eastern and Western Arctic contracts, creating four separate contracts for supply and delivery in Nunavut. The Eastern Arctic supply contract was awarded to Shell Canada and the transportation contract to Woodward's Oil. The Western Arctic supply contract was awarded to Imperial Oil and the transportation contract to NTCL.

The move was intended to improve quality control over the GN's fuel; however, it led to significant quality control issues as it became difficult to hold a single party accountable for product that was off specification (the shipper would blame the refinery and vice versa). As a result, in 2007, the GN re-combined the supply and transportation components under one contract. Woodward's Oil became the exclusive supplier and transporter of fuel to the Eastern Arctic and NTCL became the exclusive supplier and transporter of fuel to the Western Arctic (however, this agreement was subsequently awarded to Woodward's Oil in June 2010 for 5 years plus 2 one-year extension options). In 2012, the GN re-awarded the Eastern Arctic agreement to Woodward's Oil via a competitive request for proposals (RFP) process for 5 years plus 2 one-year extension options.

The Kitikmeot supply and transportation agreement was later extended by both of its 1-year options, so 2017-18 presented PPD with an opportunity to combine both the Eastern Arctic and Kitikmeot agreements under one supply and transportation agreement. It was believed that by doing so, PPD would achieve greater economies of scale and further alignment in transportation costs between the regions. This is expected to enable the continued adoption of uniform fuel prices across Nunavut which began in early January 2017. Furthermore, by continuing to have one contractor responsible for supply and delivery, PPD will continue to benefit from reduced risk in product quality and inventory control, because it eliminates a situation where one-party could place responsibility on

another party for off-specification product. For example; the refinery could blame the transportation company for off-spec product, or vice versa as a result, the current strategy eliminates this risk.

3. Inuit Employment

AV Nunavut Fuels Inc. has contractually committed to investing in Inuit Employment and Inuit Training. These opportunities will come in the form of training Inuit to work as seafarers on oil tankers and in the communities as liaison communications staff with the vessels before and during the discharge process.

4. Ban on Heavy Fuel Oil (HFO) in Arctic Waters

Although there is no set date on when the ban will take effect, the International Maritime Organization has agreed to move forward on developing a ban on HFO by January 1, 2020, with adoption expected in 2021 and full implementation by 2023. The ban of the use of HFO will result in shipping companies converting to a cleaner, yet more costly marine diesel oil which will increase marine shipping rates in Nunavut. The ban is intended to protect the Arctic from a spill of HFO, which breaks down slowly in cold water and is nearly impossible to clean up, as well as to reduce harmful emissions of air pollutants.

As the ban on HFO is likely to take effect within the contract term of PPD's supply and transportation agreement, PPD added a pricing clause within the contract to quantify the impact of the ban on fuel prices in Nunavut. The impact of the ban on HFO is minor; however, the information will aid PPD in future planning.

KEY ACTIVITIES IN 2019-20

PETROLEUM PRODUCTS REVOLVING FUND

An amendment to the *Revolving Funds Act* received assent on March 12, 2019. This amendment provides an increase to the PPRF by \$50 million, from \$200 million to \$250 million. The higher limit was requested as a result of increasingly higher sales volumes in the Territory and the higher oil prices experienced on global markets in the 2018-19 fiscal year.

The last time the *Revolving Funds Act* was amended to increase the limits of the PPRF was in 2008-09, when the limit was increased from \$150 million to \$200 million. Since that time, demand for petroleum products in Nunavut has risen by over 36 million litres.

Total Product Sales (Litres)

2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
177,271,118	175,805,507	180,005,878	193,571,876	186,907,193	190,973,585
2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
195,749,743	197,041,875	192,633,023	210,044,582	203,705,508	213,302,486

The \$50 million increase to the PPRF will enable PPD to accommodate increased demand for petroleum products in Nunavut and better manage increasing oil price volatility in the years to come.

ADOPTION OF A UNIFORM, TERRITORY-WIDE PRICING STRUCTURE

Over the past couple years, PPD has been working to incrementally improve its pricing structure for fuel products across the territory. PPD's original pricing model was inherited from the Government of the Northwest Territories (GNWT) and has influenced retail fuel prices in Nunavut for nearly two decades. Under the original structure, retail prices were established by product type, community, customer class, and payment method, resulting in an inequitable and cumbersome pricing table with approximately 2,400 unique prices in Nunavut.

In early 2017, PPD adopted a uniform pricing structure, which created one rate for all consumers, thus creating equity across consumer classes (retail, business, government, etc.). The 2017 retail price adjustment also dropped community pricing and adopted a regional pricing structure that was based on the difference in transportation costs and the weighted average (WA) commission rate for each region.

In March 2018, PPD provided an opportunity to adopt a single pricing structure for all communities outside Iqaluit. It was able to harmonize prices in Nunavut by entering a new supply and transportation agreement with a single transportation cost for all communities. The pricing structure was formulated by uniform freight rates, the spread between regionally-weighted fuel prices that decreased from \$0.0633/L to \$0.0241/l, or 62 percent.

On April 1st, 2019, PPD rolled out its uniform pricing structure across Nunavut with modest price reductions in most communities. As a result, consumers in all communities of Nunavut, excluding only Iqaluit, now pay the same price for fuel products.

KEY ACTIVITIES IN 2020-21

RETAIL PRICES

Except for the escalation of the federal carbon tax on April 1, 2020, fuel prices were held constant in the 2020-21 fiscal year. In the fall of 2020, it was determined that in order to prevent an escalation of prices during the COVID-19 pandemic, the Government would instead pursue an increase to the Petroleum Products Stabilization Fund from \$10 million to \$20 million to absorb the loss. In March 2021 the amendment to the Petroleum Products Stabilization Fund (PPSF) received assent and as a result, retail prices remained competitively low for Nunavummiut throughout the later stages of the pandemic.

PETROLEUM PRODUCTS STABILIZATION FUND

As indicated above, the *Revolving Funds Act* amendment would prevent PPD from needing to increase fuel prices during the COVID-19 pandemic and provided PPD with the fuel stabilizing ability it had in 1999, when the Petroleum Products Revolving Fund (PPRF) had a limit of \$55 million and the stabilization fund was +/- 5 million, or 9% of the PPRF. By increasing the PPSF to +/- \$20 million, PPD increased its stabilizing ability from 4% to 8%, thus better enabling the division to keep fuel prices stable in Nunavut during periods of oil price volatility.

The option to increase the PPSF to accommodate a larger deficit in 2020-21 was also chosen as a result of PPD having achieved significant savings in its early purchases for the 2021 resupply season. The known savings would enable PPD to repay the PPSF deficit in the subsequent fiscal years.

PPD OPTIONS ANALYSIS

In the fall of 2018, PPD began an assessment of its organizational and corporate structure to better position the division to manage business growth, increased regulatory oversight and health and safety requirements, as well as to address the known issues with hidden subsidies to the PPRF and to address PPD's capital requirements.

In 2020-21, PPD finalized the options analysis which considered various corporate and structural options for the division, including:

1. To form an independent petroleum commission embedded within CGS,
2. To merge with the Qulliq Energy Corporation, and
3. To form a standalone independent crown corporation.

On October 22, 2020, Bill 52, Nunavut *Petroleum Products Commission Act* legislation was introduced.

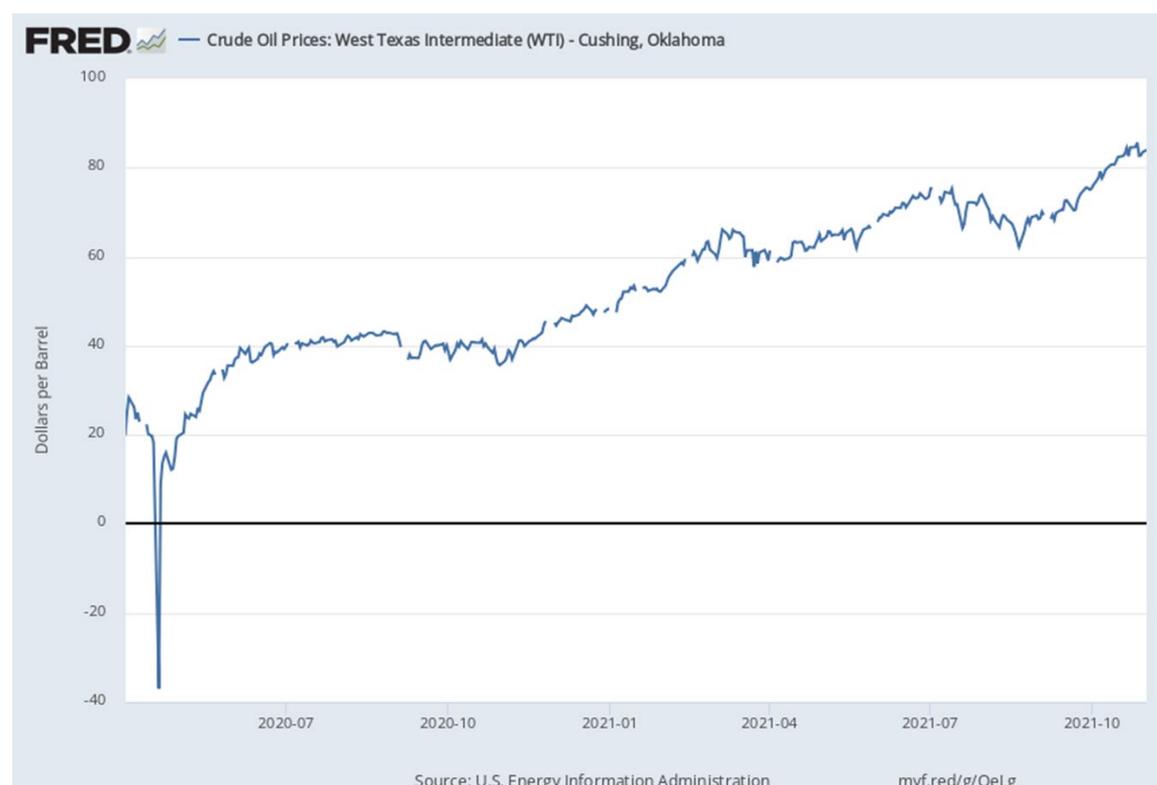
EARLY PURCHASE STRATEGY FOR 2021 RESUPPLY

In 2020-21, PPD directed a series of early purchases via futures contracts to secure lower priced petroleum products for the 2021 delivery season. Specifically, in March of 2020 (fiscal 2019-20), PPD secured 50 million litres diesel for delivery in 2021 while oil prices were trading at historic lows as a result of the COVID-19 pandemic. Then, in the Fall of 2020, PPD secured an additional 50 million litres diesel on the spot price and held this fuel in storage over Winter at a Southern bulk fuel storage facility owned by PPD's supplier. The blended cost per litre of these two purchases was \$0.4955 per litre, a significant savings relative to PPD's blended cost per litre of \$0.6517 the former year.

On January 10, 2021, PPD secured 23 million litres gasoline at a cost of \$0.5924 per litre, compared with \$0.6738 the former year.

Product	Early Purchase Dates	Quantity (L)	Cost/L 2021-22	Avg. Cost/L 2020-21	Change in Cost
Gasoline	January 10, 2021	23,000,000	\$0.5924	\$0.6738	-12.08%
Diesel	March & September, 2020	100,000,000	\$0.4955	\$0.6517	-31.52%

The above purchases represented about 65% of PPD's total requirements for the 2021 resupply season and resulted in savings of approximately \$17.5 million relative to the prior year purchases. The purchases were also strategic in terms of timing, as WTI oil prices had rebounded significantly by the time of the 2021 resupply, per the below graph:



Petroleum Products Revolving Fund

In the Fall of 2020, CGS-PPD put forward Bill 54, an Act to Amend the *Revolving Funds Act*, seeking an increase to the Petroleum Products Revolving Fund (PPRF) by \$100 million. If approved, PPD would have access to an additional \$100 million in capital to lock-in fuel prices in future years if the price of oil collapsed, such as it did in 2020 and in 2016. Such a mechanism would allow the division to take advantage of macroeconomic events and generate savings to Nunavummiut in future years. On February 25, 2021, a motion was adopted to extend the review of the Bill.

EARLY PRICE SETTING

Under the terms of the supply and transportation agreement held with Woodward's and subject to the availability of funds in the PPRF, PPD can direct the "early purchase" of petroleum products. The instrument used by the supplier is what is known as futures contracts, whereby present prices can be 'locked-in' for delivery at a future date.

Early price setting is conducted between the months of December and March in advance of the upcoming resupply season, and provides PPD with the following benefits:

- Winter-grade fuel can be sourced during its normal production cycle, i.e., in winter months (December – March) if physical possession of the product is taken by PPD's supplier.
- Prices are typically lower during winter months versus the summer months. An analysis of 30 years data shows that petroleum prices are on average 11% lower during winter months (December – March) versus summer (June – September).
- PPD can recommend retail prices to the Financial Management Board that reflects known costs for the upcoming fiscal year. This allows the Division to meet its mandate to break-even and ensure that petroleum prices in Nunavut reflect actual input costs.

In 2018-19, the average West Texas Intermediate crude oil price was \$63.25 per barrel, up 18.1% over the previous year (2017-18 \$53.57 per barrel). As the graph below depicts, there is significant volatility in crude oil prices, both seasonally and on a year-over-year basis. This volatility can be mitigated using futures contracts "early price setting", because it enables PPD to hedge against price spikes that may occur in the summer months by purchasing a portion of its volumes leading up to resupply.

West Texas Intermediate (WTI) – April 1, 2017 – March 31, 2019



In late 2017-18, PPD directed a series of future contracts that would lock-in the price of gasoline before the end of March. Its kerosene-based products (diesel and Jet A-1) were secured in the “hybrid” purchase window, which is between the months of April and May.

In 2018-19, PPD secured all its gasoline under the early price setting option (before March 31st); however, it did not secure its kerosene-based products until the in-season period (between June and September). The reason PPD held off on securing its kerosene-based products was due to the new agreement that was not awarded until mid-March, petroleum prices were already significantly higher as depicted in the graph above.

In 2019-20, the average West Texas Intermediate crude oil price was \$54.64 per barrel, down 13.6% from the previous year (2018-19: \$63.25 per barrel). In late 2019-2020, oil markets experienced tremendous volatility beginning with the US/Iran conflict followed by COVID-19, creating the largest collapse in oil prices in modern history.

West Texas Intermediate (WTI) – April 1st, 2018 – March 31st, 2020



In 2020-21, the average West Texas Intermediate crude oil price was \$42.15 per barrel, down 22.9% from the prior year average (2019-20: \$54.64 per barrel). The significant decline in prices was a direct result of the COVID-19 pandemic.

The following graph shows the price of oil for a 2-year period: April 1, 2019 to March 31, 2021:

West Texas Intermediate (WTI) – April 1st, 2019 – March 31st, 2021



TIMING OF FUEL PURCHASES AND RELATIVE SAVINGS

In terms of timing, there are three purchase windows available to PPD:

- 1) the “early-price setting” period, is December 1st to March 31st in advance of the upcoming resupply;
- 2) the “hybrid” period, is April 1st to May 30th in advance of the resupply period; and
- 3) “In-season” period, is June 1st to September 30th within the resupply period.

The below tables show the average refined product price of both gasoline and diesel for each of these three purchase windows in the past five years.

Fig 1. – Gasoline, 5-Years, RBOB

Showing relative savings of 6.16% for early purchases relative to in-season

5 Year New York Harbor Reformulated RBOB Regular Gasoline Future Contract 1 (Dollars per Gallon)			
Fiscal Year	Early Price Setting Dec 1 - March 31	Hybrid April 1 - May 30	In Season June 1 - Sept 30
2016-17	1.1981	1.5345	1.4358
2017-18	1.5810	1.6274	1.5944
2018-19	1.8283	2.1174	2.0651
2019-20	1.5377	2.0072	1.7448
2020-21	1.4207	0.8079	1.2223
5 Year Average	1.5132	1.6189	1.6125
Average Savings, Early Purchase relative to In-Season			6.16%

Denotes the period in which most purchases were made

In each of the past 5 seasons, PPD has purchased nearly all its gasoline via early price setting. Only small purchases were made in-season to accommodate minor volume changes. The above table shows relative savings of 6.16% for early price setting versus in season purchases.

Fig 2. – Diesel and Jet A-1 (both priced under the NY Harbour Heating Oil Futures)

Showing relative savings of 0.10% for early purchases relative to in-season

New York Harbor No. 2 Heating Oil Future Contract 1 (Dollars per Gallon)			
Fiscal Year	Early Price Setting Dec 1 - March 31	Hybrid April 1 - May 30	In Season June 1 - Sept 30
2016-17	1.1092	1.3349	1.4334
2017-18	1.6178	1.5493	1.5910
2018-19	1.9746	2.1465	2.1695
2019-20	1.9016	2.0472	1.8844
2020-21	1.6540	0.8881	1.1870
5 Year Average	1.6514	1.5932	1.6531
Average Savings, Early Purchase relative to In-Season			0.10%
Denotes the period in which most purchases were made			

In the past 5 seasons, PPD has purchased its diesel products in all three periods: “early price setting” in two years, the “hybrid” period in one year and “in-season” in two years. In three of five years, PPD has secured its product in the lowest priced period. In 2019-20, PPD purchased its diesel and Jet A-1 products for the 2020 resupply season during the early price setting period and, as a result, did not achieve greater savings following the impact of COVID-19 for the 2020 season. However, as noted earlier in the report, PPD did secure volumes for the 2021 resupply at these historic lows.

GENERAL COMMENTS ON OIL PRICE VOLATILITY

Crude oil markets are largely influenced by global events (e.g., international conflicts, natural disasters, demand growth changes, etc.) beyond the foresight and control of PPD. In addition, crude oil and refined petroleum product prices are volatile because of political instability, adverse weather, terrorism, pandemics, and surging or declining demand from developing countries.

As the graph below depicts, oil prices have declined significantly from the highs seen in 2011-2014. These declines have offered partial relief to the Government of Nunavut, as well as businesses and residents in territory in terms of the prices paid for fuel products. Late in fiscal 2019-20, oil prices collapsed as a result of the beginning of the COVID-19 pandemic but were rebounding to pre-pandemic levels near the end of fiscal 2020-21.

WTI – 10-Years, April 1, 2011 – March 31, 2021

West Texas Intermediate (WTI) – April 1st, 2011 – March 31st, 2021



METHODOLOGY REGARDING THE TIMING OF PURCHASES

PPD is responsible for distributing fuel in Nunavut. Its role includes planning, recommending and implementing decisions to purchase and import fuel from global markets. In turn, this involves balancing several considerations, such as price, availability of funds, volumes, demand forecasts, timing, risk, and fuel type. Before triggering a purchase transaction, PPD goes through the following steps:

- **Monitor Markets** – PPD staff, monitor markets daily. Early each morning, PPD staff download fuel price information from CME Group, a global provider of market commodities data. Staff highlight relevant prices, changes to prices, and possible trends to PPD’s Director, along with information showing how the daily rates compare to existing PPD products. Daily monitoring of markets provides PPD management an indication of fuel price changes throughout the year.
- **Preparation** – PPD is usually in a position to begin purchasing next year’s fuel by December of each year. In this period in the annual cycle, it would have started to pay down its revolving fund. More specifically, by this point in the year it has sold enough fuel to Nunavummiut to generate revenue needed to reimburse the GN for providing the cash used to cover the year’s initial purchase. By paying down its debt to the GN, PPD creates more room under its authorized limit to prepare and enter into fuel purchase contracts for the following year.

Preparation involves updating demand forecasts by community and fuel type and beginning to monitor market movement more closely. PPD also seeks expertise and advice from its fuel supplier, Woodward’s, on market trends and opportunities for Nunavut.

- **Initiate Purchase** – When PPD has sufficient funds to make a reasonably-sized purchase of more than 40 million litres of product and an internal assessment of market rates (and, occasionally, the external advice of its supplier) if positive, the Director may initiate a purchase. The first step is to inform the Deputy Minister of Community and Government Services of a proposed purchase (volume, price, fuel type, etc.). This also includes the Director providing an estimate of the market condition and forecast, as well as confirming the budgets availability under the revolving fund. The DM briefs the Minister of CGS with respect to larger purchases.
- **PPD engages supplier** – With the DM’s approval, PPD engages Woodward’s and directs them to initiate a market purchase. PPD provides Woodward’s with the basic purchase details – fuel type and purchase amount (e.g., purchase \$10 million of diesel). If early enough in the morning, the supplier is often able to complete the transaction that day. Otherwise, the supplier completes the transaction the next business day.
- **Supplier engages commodities trader** – Once directed by PPD, the supplier engages a professional commodities trader – a firm that specializes in making market transactions. For example, Glencore is among the commodities traders Woodward’s uses. The commodities trading company is necessary to broker the contract between PPD’s supplier and the refiners. These deals are brokered on an international scale, and could yield product supply from within Canada, the US or overseas markets.
- **Supplier confirms purchase** – Woodward’s informs PPD once a purchase is completed and becomes responsible for acquiring and shipping fuel to Nunavut.

In addition to using professional fuel suppliers and brokers, PPD also engages other external expertise from time to time. For example, PPD engaged with a consultant in 2016-17 to research seasonal oil price fluctuations. The study analysed 30 years of historical oil price data and determined that oil prices are, on average, 11% lower in the winter months (December – March) than in the summertime season (June – September). This study supports the decision to purchase more petroleum products in the winter months using futures contracts (a form of contract used to secure product in the future at present-day prices) rather than wait until the summer sealift season.

RISK MANAGEMENT

The GN is exposed to significant risk when purchasing and distributing large quantities of fuel. On top of the usual logistical challenges involved in the Arctic, leading banks and economists cannot consistently and reliably predict the underlying price of oil. Oil and petroleum products generally are some of the most volatile commodities in the world.

Outside physical risks (logistics, ice, shipping delays, spills, fires, etc.), PPD mitigates the financial risks in different ways that also include hedging. Hedging can be quite complicated; it essentially involves using different tools to prepare for a wide range of possible – but unknown – outcomes.

There are many examples of hedging tools available, such as options contracts, forward contracts, futures contracts, and swaps. Generally, PPD uses *futures contracts* – sometimes referred to as early purchasing. More specifically, PPD’s suppliers purchase the right (and obligation) to acquire fuel for PPD at a specific price in the future. Futures contracts help PPD ensure they acquire enough fuel for Nunavummiut at known prices. They also provide flexibility in terms of allowing the GN to take advantage of favourable market conditions.

The alternative to a futures contract is buying fuel at the “spot” price – the price at the time of vessel loading. This is PPD’s default buying option under the terms of its supply agreement and depends on the supplier’s determination of vessel configuration and sailing schedule.

The downside to this option is that it removes the GN’s ability to time its purchases and limits the supplier’s buying window to about 3-4 months of the year, which are typically more prone to price volatility given a higher likelihood of natural disasters such as hurricanes.

When deciding to use futures contracts, PPD applies two guiding principles:

- PPD’s customers should benefit from the use of hedging transactions, and
- The use of the financial hedging instrument is a management tool that should facilitate and advance financial planning and management of PPD’s operating budget.

Even when using futures contracts, the GN is exposed to several kinds of financial risks related to the purchase of fuel. We list four of these risks below.

Market risk is when the price of fuel falls below the hedged purchase price (the price we agreed to pay when we purchased the futures contract). This is the GN’s primary risk. It is reduced in part by historical evidence of seasonal price fluctuation that found lower crude prices in the winter months versus summer months. Put simply, while fuel prices change throughout the year, historic evidence shows that they are *most likely* lowest in the winter. This suggests it is *most likely* in the best interests of Nunavummiut to purchase fuel during the winter, though that may not actually be the case in specific years or on specific days.

PPD also reduces this risk by spreading out its purchases over several months, including by using the spot price during resupply. In short, PPD buys its fuel in smaller batches rather than relying on a single order. This approach recognizes that PPD cannot know precisely when fuel will be at its lowest price, so spreading out the purchases is the best way to, on average, keep prices down. This is a “hedge within a hedge” strategy that enables the GN to secure more product if prices drop, but conversely, foregoes the opportunity to have achieved more savings if prices rise.

Under its current agreement, PPD moved its pricing medium from Petro Canada’s Montreal Rack price to the NYMEX. This move has yielded significant annualized savings to the GN because NYMEX is North America’s foremost wholesale commodities exchange, yielding lower overall prices.

Demand risk – Generally, Nunavut’s demand for fuel grows steadily. Still, in any given year Nunavummiut may use more, or less, fuel than expected in a season, which risks having PPD purchase too little or too much fuel through futures contracts for a specific year. While it is generally better to manage too much fuel than too little (it is better to blend excess fuel from one season with new inventory than it is to run out), PPD manages this risk by using conservative forecasts. In practice, this means purchasing most of its fuel ahead of the season using futures contracts, but then allowing some room to purchase additional fuel as needed in-season at the spot price (the price of fuel *that day*).

Competitive price risk is where a futures agreement may not be available in the market or available only at an undesirable price. Futures prices are not only based on the spot crude market price, but also the market’s expectation of future demand/supply. In some instances, the futures price might be in “contango”, meaning the futures price is higher than spot prices, or in “backwardation”, meaning the futures price is lower than spot prices. This occurs during volatile market conditions or when there is uncertainty on the future supply.

Put simply, the markets themselves may be confused about which way the price of fuel is going, and so may not offer the product PPD needs at the price it prefers.

As part of PPD's analysis, PPD monitors the impact of pricing in each futures month and works with its supplier to optimize deliveries to southern facilities for arrangement and forwarding to Nunavut.

Finally, **default risk** exists if PPD's supplier defaults on its contract following the execution of futures contracts. Basically, there is always the possibility that Woodward's itself does not carry through with acquiring or importing the fuel. PPD mitigates this risk by requiring a \$90 million demand performance bond, which is renewed seasonally by PPD's supplier.

PETROLEUM PRODUCTS PROVIDED BY PPD

PPD provides five fuel products to communities in Nunavut:

1. Gasoline, specifically 92 octane premium winter-grade, is used primarily as a fuel for light vehicles, snowmobiles, and outboard engines.
2. Jet A-1 is certified for aircraft use and is supplied for turbine aircraft. This product may also be used for diesel and heating fuel purposes, thereby increasing flexibility in inventory management.
3. Aviation gasoline, or Avgas, is provided in only four communities: Rankin Inlet, Iqaluit, Arviat, and Cambridge Bay. Most air traffic requires Jet A-1, so there is presently minimal demand for Avgas. Due to the low demand for this product and its short (one-year) shelf life, there are no plans to extend its supply to additional communities.
4. Diesel, specifically ultra-low sulfur diesel, is the most heavily consumed fuel in Nunavut. It has multiple uses including heating, motive (heavy equipment), aviation, and the production of electricity.
5. Naphtha is a camping fuel product. It is sold in four-litre containers, which makes it labour-intensive to distribute and is therefore highly subsidized by other products to keep it affordable for Nunavummiut.

PRODUCT STANDARDS

PPD is a voting member of the Canadian General Standards Board and ensures that all fuel purchased and delivered to Nunavut meets or exceeds the Board standards for Zone H (Arctic Canada).

Intertek Testing Services is contracted as PPD's third-party fuel quality control testing service provider. Intertek is a global leader in assurance, testing, inspection and certification and helps PPD guarantee the quality of its fuel products at the point of loading and throughout marine transportation.

After the fuel is discharged to each community, PPD draws samples from each tank and sends them to Innotech Alberta for laboratory analysis and certification of specification.

The table on the following page captures the specifications for the petroleum products used in Nunavut.

Fuel Type CAN/ Canadian General Standards Board Government of Nunavut Variations

PRODUCT TYPE	SPECIFICATION	EXEMPTIONS
DIESEL	CAN/CGSB-3.517-2017 Type A	Low Temperature Operability - Cloud Point -43C Electrical Conductivity - 100pS/m minimum @ 4C Cetane - must meet the engine ASTM D613 engine test
AUTOMOTIVE GASOLINE	CAN/CGSB-3.5-2016	Grade 3, Class D Antiknock Performance - minimum 92 Vapour Pressure - minimum 95kPa Oxygenates - No alcohols, MTBE or other oxygenates allowed
Jet A-1	CAN/CGSB-3.23-2018	Type - Jet A-1 Electrical Conductivity - minimum 250pS/m minimum @ 4C
Naphtha	CAN/CGSB-3.27-2005	
Aviation Gasoline 100LL	CAN/CGSB-3.25-2004	

PETROLEUM PRODUCT PRICING

Fuel prices are historically set by region and are differentiated by the weighted average (WA) commission rates in each community, as well as the supply and delivery cost to each region. The following pricing table depicts the above pricing information graphically (in cents/litre, except Naphtha which is shown by can).

The 2018-19 fiscal year began with a retail pricing that was last updated on January 30, 2017. This pricing was in place for 7-months until October 31, 2018.

On November 1, 2018, PPD increased prices by 5 cents per litre on all diesel products and 10 cents per litre on Jet A-1, net of tax, in all communities excluding Iqaluit. In Iqaluit, prices went up by 15 cents per litre on both diesel and Jet A-1 to create better alignment with the pricing in other communities and to ensure Iqaluit achieves break-even financial performance on its fuel contract (e.g., is not subsidized by other communities).

The increase in prices were necessary because of significantly higher oil prices on world markets during the 2018-19 season, relative to the prior year (the WTI price of oil average 18.1% higher in 2018-19 versus 2017-18). A significant portion of the increase in oil prices was alleviated by PPD's move to pricing its petroleum products under NYMEX which achieved significant savings, as noted earlier in the document. As a result, fuel prices did not increase to the degree that would have been otherwise necessary.

The tables below illustrate the price of fuel, by product type, in each community both before and after the retail price adjustment.

PETROLEUM PRODUCTS DIVISION (2018-19)

Retail Price List Prices Effective January 30, 2017

(all taxes included - cents/litre, except Naphtha shown by can)

COMMUNITY	P50-HTG	P50-DSL	P50-AVN	GASOLINE	100LL	NAPHTHA	JET A1
QIKIQTANI							
IGLOOLIK	101.8	116.7	138.9	111.6		800.0	152.7
SANIRAJAK	101.8	116.7	138.9	111.6		800.0	152.7
POND INLET	101.8	116.7	138.9	111.6		800.0	152.7
CLYDE RIVER	101.8	116.7	138.9	111.6		800.0	
ARCTIC BAY	101.8	116.7	138.9	111.6		800.0	152.7
RESOLUTE BAY	101.8	116.7	138.9	111.6		800.0	152.7
GRISE FIORD	101.8	116.7	138.9	111.6		800.0	152.7
KIMMIRUT	101.8	116.7	138.9	111.6		800.0	
KINNGAIT	101.8	116.7	138.9	111.6		800.0	152.7
PANGNIRTUNG	101.8	116.7	138.9	111.6		800.0	152.7
QIKIQTARJUAQ	101.8	116.7	138.9	111.6		800.0	152.7
IQUALUIT	81.3	*		*	155.2	800.0	128.8
KIVALLIQ							
RANKIN INLET	98.8	114.0	144.0	110.0	182.0	800.0	148.9
ARVIAT	98.8	114.0	144.0	110.0	182.0	800.0	
CHESTERFIELD INLET	98.8	114.0	144.0	110.0		800.0	
BAKER LAKE	98.8	114.0	144.0	110.0		800.0	
CORAL HARBOUR	98.8	114.0	144.0	110.0		800.0	148.9
NAUJAAT	98.8	114.0	144.0	110.0		800.0	
WHALE COVE	98.8	114.0	144.0	110.0		800.0	

SANIKILUAQ	98.8	114.0	144.0	110.0		800.0	
KITIKMEOT							
CAMBRIDGE BAY	107.0	121.4	145.0	115.5	190.0	800.0	157.3
KUGLUKTUK	107.0	121.4	145.0	115.5	190.0	800.0	157.3
GJOA HAVEN	107.0	121.4	145.0	115.5		800.0	157.3
TALOYOAK	107.0	121.4	145.0	115.5		800.0	157.3
KUGAARUK	107.0	121.4	145.0	115.5		800.0	157.3

* price set by the third- party retailers who purchase from Uqsuq

Note: the grouping of communities above is PPD's method: it differs somewhat from GN's grouping by geographic region.

PETROLEUM PRODUCTS DIVISION (2019-20)

In fiscal 2019-20, PPD made the following three price changes:

1. April 1st, 2019 adopted uniform pricing Nunavut-wide with modest price reductions.
2. July 1st, 2019 implemented the Federal Government's carbon tax.
3. January 12th, 2020 price reductions of \$0.04 per litre on gasoline and all diesel products.

PETROLEUM PRODUCTS PRICE LIST (BEFORE AND AFTER ADJUSTMENT)

The tables below illustrate the price of fuel, by product type, in each community before and after the abovementioned retail price adjustments.

Retail Prices Before the April 1st, 2019 Price Change

PETROLEUM PRODUCTS DIVISION							
RETAIL PRICE LIST							
PRICES EFFECTIVE NOVEMBER 1, 2018							
(all taxes included - cents/litre, except Naphtha shown by can)							
COMMUNITY	Diesel - Heating	Diesel - Vehicle	Diesel - Aviation	Gasoline	Gasoline - Aviation	Naphtha (per can)	Jet Fuel
BAFFIN							
IGLOOLIK	\$ 1.0703	\$ 1.2193	\$ 1.4417	\$ 1.1158		\$ 8.0000	\$ 1.6324
SANIRAJAK	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
POND INLET	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
CLYDE RIVER	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
ARCTIC BAY	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
RESOLUTE BAY	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
GRISE FIORD	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
KIMMIRUT	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
KINNGAIT	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
PANGNIRTUNG	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
QIKIQTARJUAQ	1.0703	1.2193	1.4417	1.1158		8.0000	1.6324
IQUALUIT	0.9704	*-----		*-----	\$ 1.5515	8.0000	1.4453
*Retail prices for gasoline and diesel for vehicles in Iqualuit are available at vendor's locations							
KIVALLIQ							
RANKIN INLET	1.0400	1.1929	1.4922	1.0996	1.8200	8.0000	1.5940
ARVIAT	1.0400	1.1929	1.4922	1.0996	1.8200	8.0000	
CHESTERFIELD INLET	1.0400	1.1929	1.4922	1.0996		8.0000	
BAKER LAKE	1.0400	1.1929	1.4922	1.0996		8.0000	
CORAL HARBOUR	1.0400	1.1929	1.4922	1.0996		8.0000	1.5940
NAUJAAT	1.0400	1.1929	1.4922	1.0996		8.0000	
WHALE COVE	1.0400	1.1929	1.4922	1.0996		8.0000	
SANIKILUAQ	1.0400	1.1929	1.4922	1.0996		8.0000	1.5940
KITIKMEOT							
CAMBRIDGE BAY	1.1223	1.2666	1.5026	1.1549	1.8999	8.0000	1.6783
KUGLUKTUK	1.1223	1.2666	1.5026	1.1549	1.8999	8.0000	1.6783
GJOA HAVEN	1.1223	1.2666	1.5026	1.1549		8.0000	1.6783
TALOYOAK	1.1223	1.2666	1.5026	1.1549		8.0000	1.6783
KUGAARUK	1.1223	1.2666	1.5026	1.1549		8.0000	1.6783

Note: the grouping of communities above is PPD's method: it differs somewhat from GN's grouping by geographic region.

Retail Prices Effective April 1st, 2019 Reflecting the Adoption of a Uniform Pricing Structure with Modest Price Reductions

PETROLEUM PRODUCTS DIVISION RETAIL PRICE LIST PRICES EFFECTIVE APRIL 1, 2019 (all taxes included - cents/litre, except Naphtha shown by can)							
COMMUNITY	Diesel - Heating	Diesel - Vehicle	Diesel - Aviation	Gasoline	Gasoline - Aviation	Naphtha (per can)	Jet Fuel
BAFFIN							
IGLOOLIK	\$ 1.0390	\$ 1.1847	\$ 1.4253	\$ 1.0964		\$ 8.0000	\$ 1.5014
HALL BEACH	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
POND INLET	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
CLYDE RIVER	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
ARCTIC BAY	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
RESOLUTE BAY	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
GRISE FJORD	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KIMMIRUT	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
CAPE DORSET	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
PANGNIRTUNG	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
QIKIQTARJUAQ	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
IQUALUIT	0.9704	*-----		*-----	\$ 1.5515	8.0000	1.4453
*Retail prices for gasoline and diesel for vehicles in Iqaluit are available at vendor's locations							
KIVALLIQ							
RANKIN INLET	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
ARVIAT	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	
CHESTERFIELD INLET	1.0390	1.1847	1.4253	1.0964		8.0000	
BAKER LAKE	1.0390	1.1847	1.4253	1.0964		8.0000	
CORAL HARBOUR	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
NAUJAAT	1.0390	1.1847	1.4253	1.0964		8.0000	
WHALE COVE	1.0390	1.1847	1.4253	1.0964		8.0000	
SANIKILUAQ	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KITIKMEOT							
CAMBRIDGE BAY	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
KUGLUKTUK	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
GJOA HAVEN	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
TALOYOAK	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KUGAARUK	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014

2019-20 Retail Prices Following the Implementation of the Federal Government's Carbon Tax

PETROLEUM PRODUCTS DIVISION							
RETAIL PRICE LIST							
PRICES EFFECTIVE APRIL 1, 2019							
(all taxes included - cents/litre, except Naphtha shown by can)							
COMMUNITY	Diesel - Heating	Diesel - Vehicle	Diesel - Aviation	Gasoline	Gasoline - Aviation	Naphtha (per can)	Jet Fuel
BAFFIN							
IGLOOLIK	\$ 1.0390	\$ 1.1847	\$ 1.4253	\$ 1.0964		\$ 8.0000	\$ 1.5014
SANIRAJAK	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
POND INLET	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
CLYDE RIVER	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
ARCTIC BAY	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
RESOLUTE BAY	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
GRISE FIOR	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KIMMIRUT	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KINNGAIT	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
PANGNIRTUNG	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
QIKIQTARJUAQ	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
IQUALUIT	0.9704	*-----		*-----	\$ 1.5515	8.0000	1.4453
*Retail prices for gasoline and diesel for vehicles in Iqualuit are available at vendor's locations							
KIVALLIQ							
RANKIN INLET	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
ARVIAT	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	
CHESTERFIELD INLET	1.0390	1.1847	1.4253	1.0964		8.0000	
BAKER LAKE	1.0390	1.1847	1.4253	1.0964		8.0000	
CORAL HARBOUR	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
NAUJAAT	1.0390	1.1847	1.4253	1.0964		8.0000	
WHALE COVE	1.0390	1.1847	1.4253	1.0964		8.0000	
SANIKILUAQ	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KITIKMEOT							
CAMBRIDGE BAY	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
KUGLUKTUK	1.0390	1.1847	1.4253	1.0964	1.6614	8.0000	1.5014
GJOA HAVEN	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
TALOYOAK	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014
KUGAARUK	1.0390	1.1847	1.4253	1.0964		8.0000	1.5014

PETROLEUM PRODUCTS DIVISION (2020-21)

In fiscal 2020-21, PPD made only one price change to reflect the escalation of the federal carbon tax. The following are the retail prices lists before and after the federal carbon tax.

Retail Prices Following Reductions on January 12th, 2020

PETROLEUM PRODUCTS DIVISION							
RETAIL PRICE LIST							
PRICES EFFECTIVE January 12, 2020							
(all taxes included - cents/litre, except Naphtha shown by can)							
COMMUNITY	Diesel - Heating	Diesel - Vehicle	Diesel - Aviation	Gasoline	Gasoline - Aviation	Naphtha (per can)	Jet Fuel
BAFFIN							
IGLOOLIK	\$ 1.0238	\$ 1.1695	\$ 1.4101	\$ 1.0765		\$ 8.0854	\$ 1.5014
SANIRAJAK	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
POND INLET	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
CLYDE RIVER	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
ARCTIC BAY	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
RESOLUTE BAY	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
GRISE FIORD	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
KIMMIRUT	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
KINNGAIT	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
PANGNIRTUNG	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
QIKIQTARJUAQ	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
IQUALUIT	0.9284	*-----		*-----	\$ 1.5515	8.0854	1.4453
*Retail prices for gasoline and diesel for vehicles in Iqaluit are available at vendor's locations							
KIVALLIQ							
RANKIN INLET	1.0238	1.1695	1.4101	1.0765	1.6614	8.0854	1.5014
ARVIAT	1.0238	1.1695	1.4101	1.0765	1.6614	8.0854	
CHESTERFIELD INLET	1.0238	1.1695	1.4101	1.0765		8.0854	
BAKER LAKE	1.0238	1.1695	1.4101	1.0765		8.0854	
CORAL HARBOUR	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
NAUJAAT	1.0238	1.1695	1.4101	1.0765		8.0854	
WHALE COVE	1.0238	1.1695	1.4101	1.0765		8.0854	
SANIKILUAQ	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
KITIKMEOT							
CAMBRIDGE BAY	1.0238	1.1695	1.4101	1.0765	1.6614	8.0854	1.5014
KUGLUKTUK	1.0238	1.1695	1.4101	1.0765	1.6614	8.0854	1.5014
GJOA HAVEN	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
TALOYOAK	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014
KUGAARUK	1.0238	1.1695	1.4101	1.0765		8.0854	1.5014

Figure 2. Retail prices following the April 1, 2020 federal carbon tax escalation

PETROLEUM PRODUCTS DIVISION							
RETAIL PRICE LIST							
PRICES EFFECTIVE April 1, 2020							
(all taxes included - cents/litre, except Naphtha shown by can)							
COMMUNITY	Diesel - Heating	Diesel - Vehicle	Diesel - Aviation	Gasoline	Gasoline - Aviation	Naphtha (per can)	Jet Fuel
BAFFIN							
IGLOOLIK	\$ 1.0372	\$ 1.1829	\$ 1.4235	\$ 1.0876		\$ 8.1279	\$ 1.5014
SANIRAJAK	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
POND INLET	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
CLYDE RIVER	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
ARCTIC BAY	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
RESOLUTE BAY	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
GRISE FIOR	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
KIMMIRUT	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
KINNGAIT	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
PANGNIRTUNG	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
QIKIQTARJUAQ	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
IQUALUIT	*-----	*-----		*-----	*-----	8.1279	1.4453
*Retail prices for gasoline and diesel for vehicles in Iqualuit are available at vendor's locations							
KIVALLIQ							
RANKIN INLET	1.0372	1.1829	1.4235	1.0876	1.6614	8.1279	1.5014
ARVIAT	1.0372	1.1829	1.4235	1.0876	1.6614	8.1279	
CHESTERFIELD INLET	1.0372	1.1829	1.4235	1.0876		8.1279	
BAKER LAKE	1.0372	1.1829	1.4235	1.0876		8.1279	
CORAL HARBOUR	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
NAUJAAT	1.0372	1.1829	1.4235	1.0876		8.1279	
WHALE COVE	1.0372	1.1829	1.4235	1.0876		8.1279	
SANIKILUAQ	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
KITIKMEOT							
CAMBRIDGE BAY	1.0372	1.1829	1.4235	1.0876	1.6614	8.1279	1.5014
KUGLUKTUK	1.0372	1.1829	1.4235	1.0876	1.6614	8.1279	1.5014
GJOA HAVEN	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
TALOYOAK	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014
KUGAARUK	1.0372	1.1829	1.4235	1.0876		8.1279	1.5014

RETAIL PRICE BENCHMARKS

An effective strategy to determine the efficiency of Nunavut’s fuel program is to benchmark Nunavut’s fuel pricing to Southern Canada. The purpose of benchmarking is to assess the spread between Nunavut and Southern Canada prices to determine if Nunavut is becoming more, or less, competitive over time.

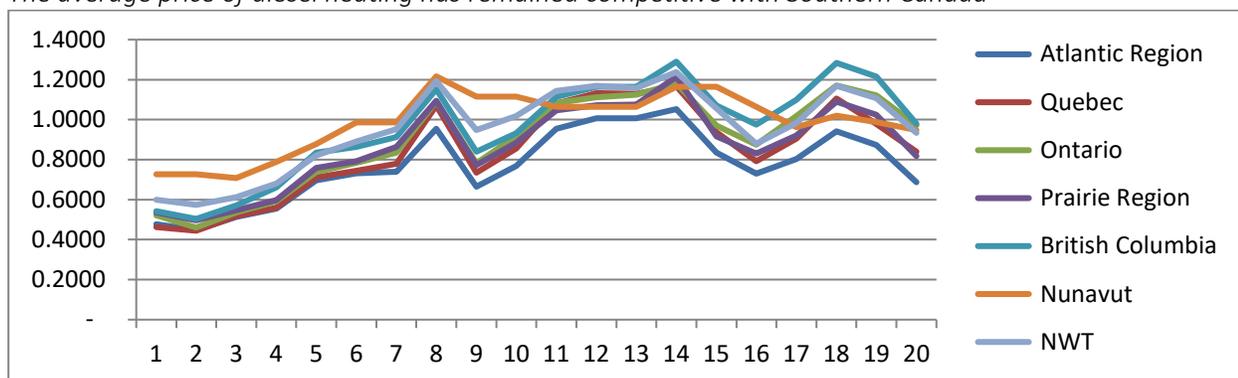
However, like all consumer goods in Nunavut, the supply and delivery of petroleum involves additional costs and complexities beyond supply chains in Southern Canada. Nunavut also requires winter-grade and premium products to ensure effective cold-weather operability.

The data for Southern Canada represents #2 heating oil and regular gasoline compared to #1 ultra-low sulphur diesel and premium gasoline (92 Octane) in Nunavut.

Note that the below pricing benchmarks are based upon the retail prices in Canada following the impact of COVID-19, which brought lower fuel prices to all jurisdictions in Canada.

Diesel Heating (\$ / L) Price Across Canada, 2001 – 2020

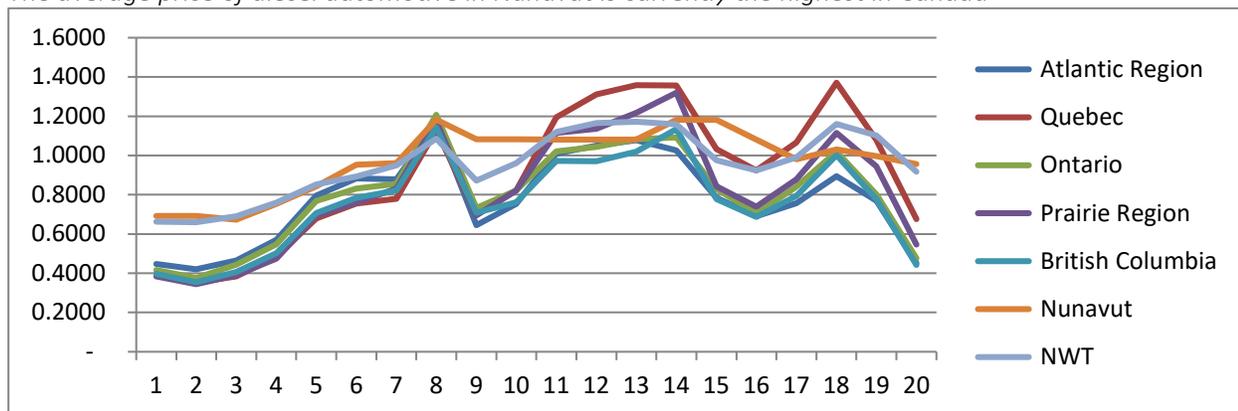
The average price of diesel heating has remained competitive with Southern Canada



Consumer Table: 18-10-0001-01 (formerly CANSIM 326-0009) (accessed: October 24, 2020)
<https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000101>

Diesel Motive (\$ / L) Price Across Canada, 2001 – 2020

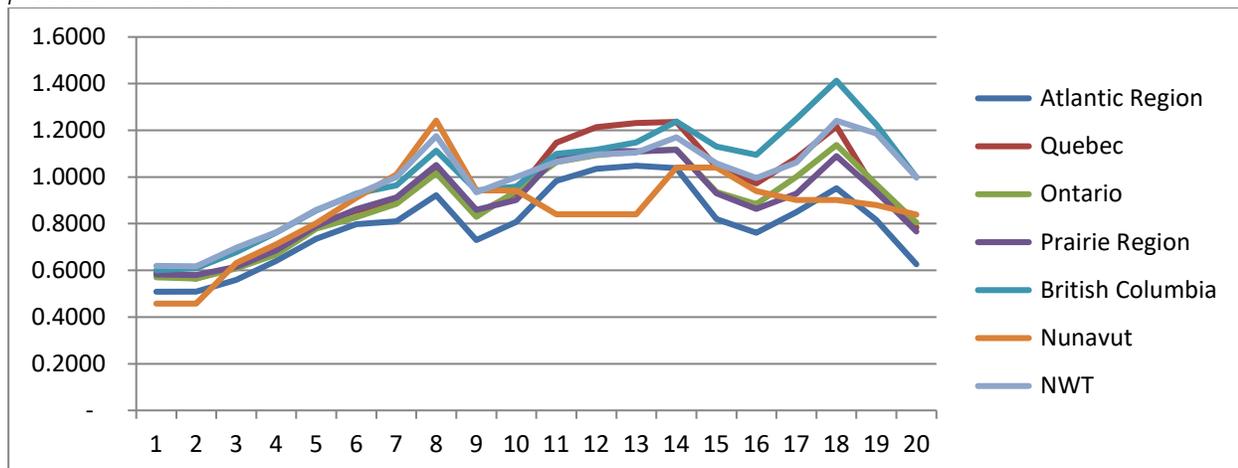
The average price of diesel automotive in Nunavut is currently the highest in Canada



Consumer Table: 18-10-0001-01 (formerly CANSIM 326-0009) (accessed: October 24, 2020)
<https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000101>

Gasoline (\$ / L) Price Across Canada, 2001 – 2020

The average price of gasoline in Nunavut has remained competitive with Southern Canada despite a higher-grade product in Nunavut.



Consumer Table: 18-10-0001-01 (formerly CANSIM 326-0009) (accessed: October 24, 2020)
<https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000101>

As the table above shows, Nunavut is competitive with Southern Canada in terms of its diesel heating and gasoline prices. Nunavut premium and winter-grade specifications are among the lowest of prices in these product categories. Diesel automotive pricing is currently among the highest in Canada.

Not depicted above, are prices for Jet A-1, naphtha and aviation gasoline. Jet A-1 in Nunavut is among the highest prices in Canada. On the contrary, Naphtha and aviation gasoline are cross-subsidized by other products and thus are among the lowest prices in Canada.

PRODUCT COST BREAKDOWN

Retail fuel prices in Nunavut are comprised of seven (7) components:

1. The weighted-average (blended) cost of fuel, primarily:
 - a. fuel product costs, and
 - b. fuel delivery costs
2. Profit margin or subsidy
3. Goods and Services Tax (GST)
4. Nunavut excise tax
5. Federal excise tax
6. Carbon Tax (new for 2019)
7. Nunavut Carbon Rebate (new for 2019)

1 - Weighted Average Fuel Cost

Each community has a unique WA cost for each fuel product, equal to the cost of any existing fuel plus the weighted cost of new fuels (product plus freight), proportionate to the volume of fuel received relative to the volume of existing fuel. For example:

A	B	C = (B/A)	D	E	F = (A + D)
---	---	-----------	---	---	-------------

A fuel volume before receipt of new product (litres)	Existing fuel value	Existing WA cost per litre	Volume of fuel received (litres)	Total cost*	Fuel volume after receipt of new product (litres)	New blended fuel value	New WA cost per litre
1,000	\$900.00	0.9000	2,000	\$2,500.00	3,000	\$3,400.00	\$1.1333

*Equal to product cost of \$2,000 plus freight cost of \$500

2 - Profit Margin or Subsidy

Depending on the mandated retail fuel price in a given community there will exist a degree of profit margin or subsidy within each price.

If the sum of fuel cost components (excluding the profit margin or subsidy) is below the retail price, the result is a profit margin. If the opposite is true, the final component becomes a fuel price subsidy.

3 - Goods and Services Tax

All petroleum products sold in Nunavut are subject to five percent (5%) GST.

4 & 5 - Excise Taxes

Petroleum products sold in Nunavut are subject to varying amounts of Nunavut and Federal excise taxes on a per-litre basis. Note that diesel fuel is taxed subject to its end use, be it heating, motive (e.g., heavy equipment), or aviation fuel:

Nunavut and Federal Excise Taxes on Petroleum Products

	PETROLEUM PRODUCTS							
	P50 DIESEL			GASOLINE	AVGAS	NAPHTHA	JET A-1	
	HEATING	MOTIVE	AVIATION					
NUNAVUT – Territorial Excise Tax	\$ –	\$ 0.091	\$ 0.010	\$ 0.064	\$ 0.010	\$ –	\$ 0.010	
NUNAVUT – Federal Excise Tax	–	0.040	0.040	0.100	0.110	–	0.040	

6 & 7 Carbon Tax and Nunavut Carbon Rebate (2019-20)

Effective July 1st, 2019, the Federally implemented Carbon Tax was applied to the per-litre cost of several retail fuel products in Nunavut. Carbon Tax was applied to gasoline, P50 diesel, and naphtha at per-litre rates of \$0.0442, \$0.0537, and \$0.0451, respectively. Note that P50 diesel used for the generation of electrical power (e.g., QEC bulk sales) was excluded from the Carbon Tax, as were aviation fuels (i.e., Jet A-1 and aviation gasoline).

The Government of Nunavut implemented and applied the Nunavut Carbon Rebate (NCR) to retail fuel prices at per-litre rates equal to half of the Carbon Tax rates. Effectively, the NCR reduces the Carbon Tax rates by half.

VARIATIONS IN WEIGHTED AVERAGE (WA) COSTS

Due to the way WA costs are determined and the blending of existing fuel costs with new fuel costs, variations can arise between the per-litre costs of fuel in different communities. Consider two hypothetical communities:

Community 1 and Community 2, with identical pre-resupply fuel costs and weighted averages (\$900.00 and \$0.9000/L, respectively), but different pre-resupply fuel volumes:

COMMUNITY 1			COMMUNITY 2		
A	B	C = (B/A)	A	B	C = (B/A)
FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA COST PER LITRE	FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA COST PER LITRE
1,000	\$900.00	\$ 0.9000	800	\$720.00	\$ 0.9000

If new fuel is resupplied, even by equal volumes and at equal costs, the new WA costs per litre will be different (\$1.1333/L for Community 1 and \$1.1500/L for Community 2):

COMMUNITY 1							
A	B	C = (B/A)	D	E	F = (A + D)	G = (B + E)	H = (G / F)
FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA	VOLUME OF FUEL RECEIVED	TOTAL COST*	FUEL VOLUME AFTER RECEIPT OF	NEW BLENDED	NEW WA COST PER
1,000	\$900.00	\$ 0.9000	2,000	\$ 2,500.00	3,000	\$ 3,400	\$ 1.1333

**Equal to product cost of \$2,000 plus freight cost of \$500*

COMMUNITY 2							
A	B	C = (B/A)	D	E	F = (A + D)	G = (B + E)	H = (G / F)
FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA	VOLUME OF FUEL RECEIVED	TOTAL COST*	FUEL VOLUME AFTER RECEIPT OF	NEW BLENDED	NEW WA COST PER
800	\$720.00	\$ 0.9000	2,000	\$ 2,500.00	2,800	\$ 3,220.00	\$ 1.1500

**Equal to product cost of \$2,000 plus freight cost of \$500*

This example is true to real-world scenarios where existing fuel volumes, resupplied volumes, and resupplied fuel costs cannot possibly be expected to remain constant and equal.

Resupplied fuel costs are subject to additional variability due to the timing of fuel purchases (e.g., world market fuel prices rising or falling throughout the resupply season and year-over-year) and incremental, non-typical expenses including:

- emergency fuel airlift costs (used only in exceptional circumstances)
- ad hoc vessel anchoring expenses (e.g., bulldozer rental)
- inland freight charges (typically only for naphtha and aviation gasoline)

If a community is depleted of gasoline before its scheduled fuel resupply, for example, gasoline must be transported to that community via multiple airlifts. The costs of such an operation (predominantly the cost of chartering an aircraft) are allocated to the cost of fuel in the receiving community which increases the variance in WA costs between communities.

Fluctuations in fuel transportation charges have also played a role in the variation of WA costs. While largely stabilized under the current Woodward’s contract, historical freight charges have risen as high as \$0.5543 per litre. As recently as fiscal year 2008, freight charges were as high as \$0.4555 per litre for bulk deliveries to the Kitikmeot region. In 2018-19, PPD’s freight rates dropped to \$0.1333 per litre for bulk deliveries to all regions.

FUEL PRICE COMPONENTS (NUNAVUT AVERAGE)

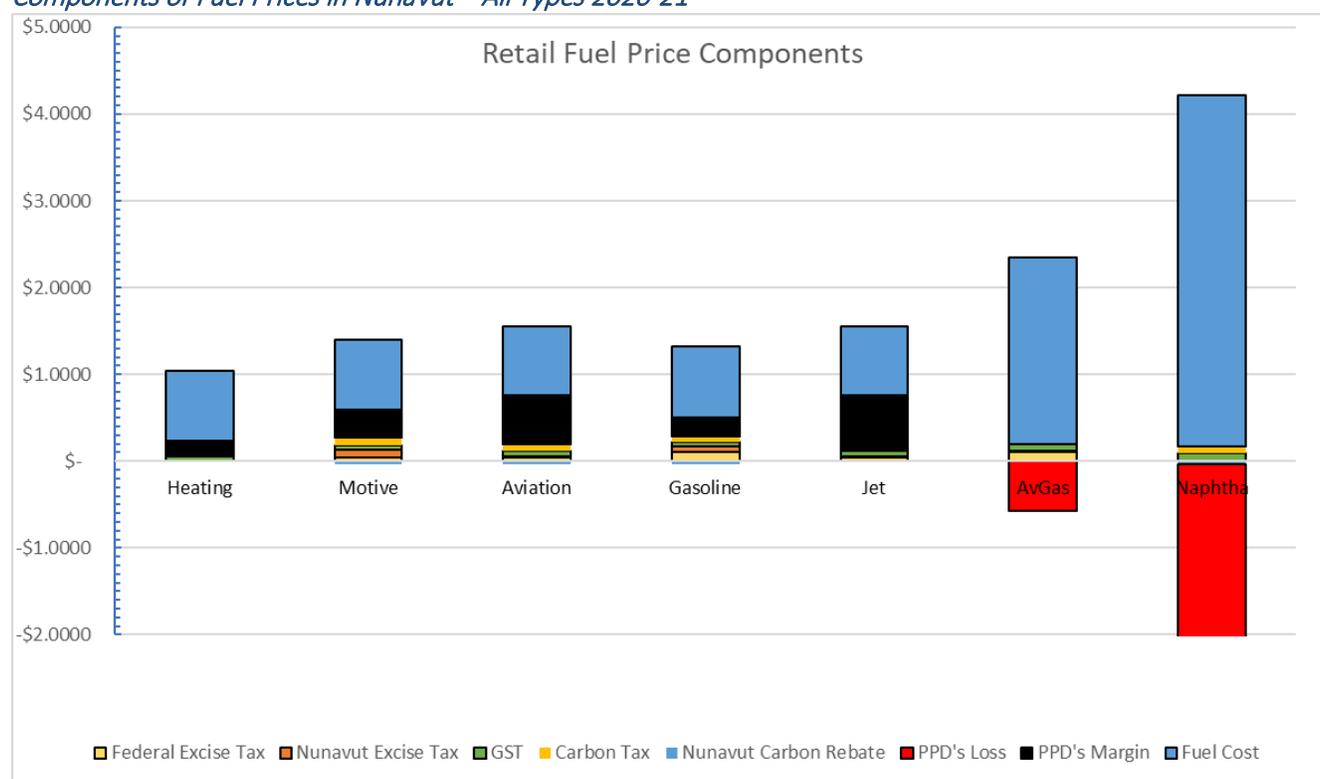
The table and figure below capture the various components that make-up the retail fuel prices. All products are sold at a profit except for Naphtha and Gasoline are subsidized.

Components of Fuel Prices in Nunavut – All Types 2019-20

	Heating	Motive	Aviation	Gasoline	Jet	AvGas	Naphtha
Federal Excise Tax	\$ -	\$ 0.0400	\$ 0.0400	\$ 0.1000	\$ 0.0400	\$ 0.1100	\$ -
Nunavut Excise Tax	-	0.0910	0.0100	0.0640	0.0100	0.0100	-
GST	0.0513	0.0522	0.0680	0.0457	0.0755	0.0780	0.0952
PPD's Loss	-	-	-	-	-	- 0.9312	- 1.7749
PPD's Margin	0.1599	0.1768	0.4945	0.0392	0.6950	-	-
Fuel Cost	0.8663	0.8663	0.8663	0.8745	0.8144	2.4904	3.6797
Base Price	1.0262	1.0431	1.3608	0.9137	1.5094	1.5592	1.9048
Retail Price	1.0775	1.2263	1.4788	1.1234	1.6349	1.7571	2.0000

Fuel Cost and Retail Price = Territorial averages

Components of Fuel Prices in Nunavut – All Types 2020-21



PETROLEUM IMPORTS AND SALES

IMPORTS

2018-19

In 2018-19, PPD imported (purchased) a total of 210,248,774 litres of petroleum products, a decrease of 2.3%, or 4.8 million litres, from the prior year (2017: 215,032,128). Overall, imports have risen by 25.8 million litres since the 2008 resupply season. This represents a growth rate of 14% over the period.

2019-20

In 2019-20, PPD imported (purchased) a total of 216,956,205 litres of petroleum products, an increase of 3.19%, or 6.7 million litres, from the prior year (2018: 210,248,774).

2020-21

In 2020-21, PPD imported (purchased) a total of 214,845,952 litres of petroleum products, a decrease of 1%, or 2,110,253 million litres from the prior year (2019: 216,956,205)

SALES

Overall, petroleum sales in Nunavut have decreased primarily because of decreased Jet A-1 sales following the COVID-19 pandemic. The growth trend over the past five years remains positive, at 4.6% growth in sales since 2016-17.

Petroleum Sales, 2016-17 to 2020-21 by Fuel Type

Fuel Type	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
	Litres	Litres	Litres	Litres	Litres
Total All P-50	134,399,999	144,503,634	135,454,751	137,627,474	137,475,509
Gasoline	20,874,943	21,881,018	22,183,823	23,362,215	24,202,581
Jet A-1	37,064,594	43,322,277	46,516,446	52,197,524	40,003,652
Total All	192,633,023	210,044,582	204,155,020	213,187,213	201,681,742

In summary, over the past five years, Nunavut-wide sales of diesel (All P-50) have increased by about 2.3%, while sales of gasoline have increased by about 15.9% and Jet A-1 fuel by about 7%.

The above data show low to moderate growth and suggest a modest rise in consumption of diesel and Jet A-1 and higher rates of growth in gasoline over the past 5 years—a trend which is consistent with long-term consumption in the Territory. Jet A-1 sales were lower as a result of the COVID-19 pandemic and reduced flight activity.

Note, sales data is widely dispersed on a community level: where some communities show high rates of growth, others show low or negative growth trends. *Information on community-level data can be provided by PPD on request.*

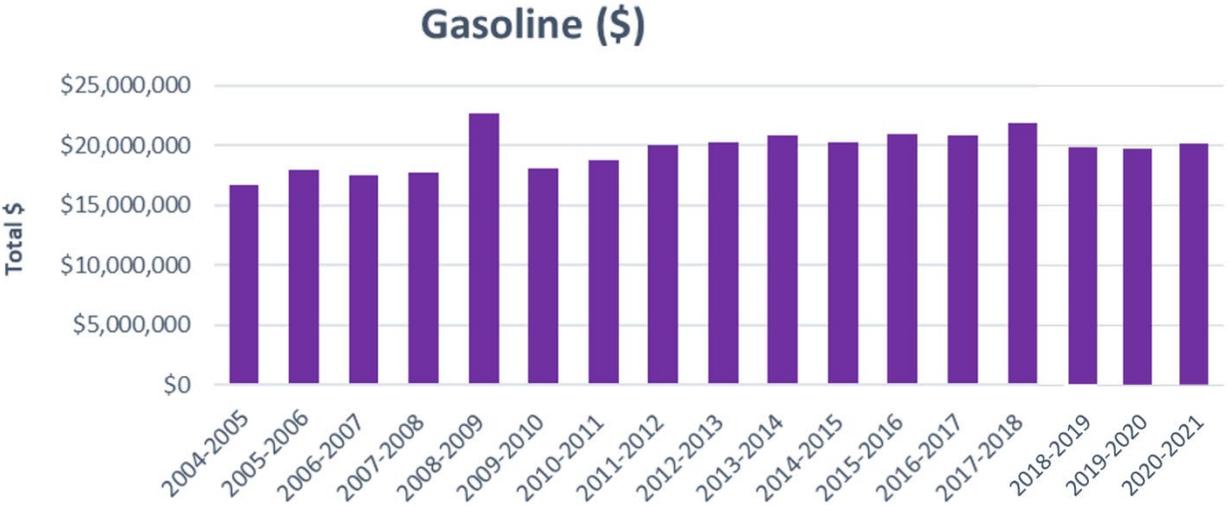
Trends for P-50, Gasoline and Jet A-1 over a 17-year period (2004-05 to 2020-21) in Nunavut are graphically depicted below.

All P-50 Sales 2004-2005 to 2020-2021



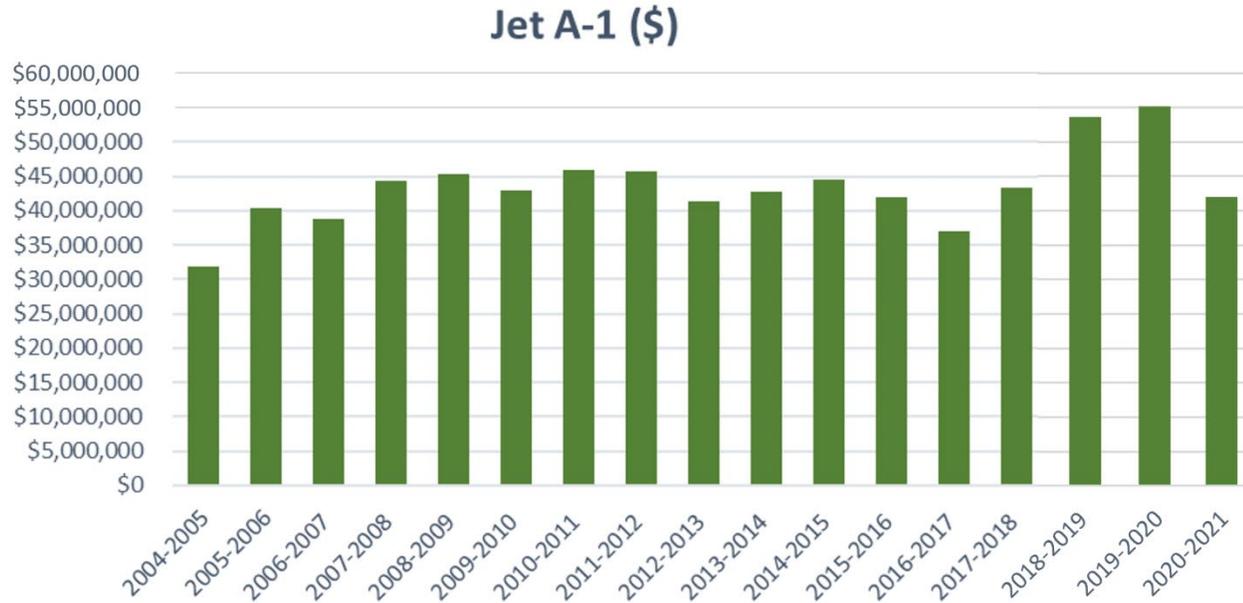
There has been an interchangeable slight decline and rise of P-50 sales from the periods 2004-2012. Thereafter, sales drop in 2012-2013 and rise again until 2018. 2017-2018 shows the highest sales of P-50. Subsequently, sales drop again from 2018-2021.

Gasoline Sales 2004-2005 to 2020-2021



An exponential growth of sales is depicted in the period 2008-2009. Sales decline and then maintain a moderate growth of sales until 2017-2018 but drop again from 2018-2019 to 2020-2021.

Jet A-1 Sales 2004-2005 to 2020-2021



Jet A-1 sales interchangeably rise and decline until 2018 where sales are markedly higher in 2018-2019 and 2019-2020. Sales declined in 2020-2021 as a result travel restrictions related to COVID-19 pandemic.

Total – All Fuel Sales 2004-2005 to 2020-2021



In conclusion, all fuel sales fluctuated over a period of time, but are markedly highest in 2018-2019, reflecting higher retail prices.

BULK FUEL FACILITIES

NUNAVUT FUEL CONTEXT

PPD imports approximately \$200 million worth -- or approximately 210,000,000 litres -- of fuel products, via marine vessel, annually.

Approximately \$180 million in infrastructure is owned by the GN and operated and maintained by PPD to handle the storage and distribution of fuel within the territory. Many of the existing tank farms were inherited by PPD (GN) from the Government of Northwest Territories during the creation of Nunavut in 1999. PPD is not only responsible for maintaining existing tank farms but also for upgrading facilities to ensure that there is adequate storage capacity to address the future demand increases tied to community population growth. PPD is responsible for upgrading facilities using funds accessed through the GN's Capital Planning Process.

FACILITY AGE AND CONDITION

While the life expectancy of a new tank is approximately 40-50 years, new regulations require that all tanks receive upgrades and replacements before they reach the end of the life cycle. This means that tanks built in 1992 would technically have another 15 years of life, but the cost of upgrading the tanks and facilities to meet new code requirements could potentially exceed the amount required to replace them.

For example, an approximate cost to repair a 636,000 L aboveground storage tank could be \$700,000 (2015 quote for a specific tank). It takes approximately 4 weeks to complete the design and 6-8 weeks to complete the repairs of a tank in the north. The life expectancy would be extended to 15-20 years.

A class A estimate to replace the same tank (636,000 L) was approximately \$1.1 million. It would take approximately 6 weeks to design the tank and 10-12 weeks for construction. An additional 3-5 weeks the following season would be required for testing and painting. The life expectancy of this new tank would be 40-50 years. Although the initial costs are higher, the life expectancy of the tank is significantly higher and will not require as much maintenance or future replacement in comparison to repairing the current tank.

PPD weighs the pros and cons based on the age and condition of the tanks and surrounding tanks within the tank farm to determine whether a new tank is required or is just in need of repair.

TANK INSPECTIONS

While the age of a tank is already known to PPD, the condition of the tank cannot be determined unless an API 650¹ inspection is completed by a certified party. This inspection requires a technician to inspect the aboveground storage tank and containment area as well as the tank roof (domes and seals), tank shell, aperture, evaluation of settlement (foundation), strapping and the tank floor.

PPD contractors' complete monthly inspections on all PPD infrastructure in the communities. They check for leaks, maintain tank systems free of foreign liquids, and look for progressive tank shell aging that may lead to catastrophic failure. Checklists used by the contractors allow PPD to comply with federal (Environment and Climate Control Canada) requirements for leak detection and maintenance.

PPD regional officer's complete community inspections semi-annually to identify and correct critical problems and build a solid foundation for tank management and compliance. These semi-annual inspections serve to verify that contractors are completing their contractual obligations and not completing reports without completing the inspection first. These inspections also inform PPD headquarters of major issues that have not been dealt with by contractors or that are PPD's maintenance responsibility. PPD hires third party mechanics and pipeline inspectors to join them on their semi-annual inspections. Reports on deficiencies are then submitted to HQ operations to be addressed.

¹ The American Petroleum Institute (API) Standard #650 is one of the primary industry standards used for aboveground welded storage tanks. It establishes the minimum requirements for material, design, fabrication, erection, and testing for aboveground storage tanks of various sizes and capacities that have internal pressures approximating atmospheric pressure.

NEW TANK FARM PROCESS

If a new tank farm is built, an inspection and summary are completed by an experienced and certified inspector to identify and correct significant problems before the system goes into operation. After the tank farm is upgraded, a site diagram, tank diagrams, tank system information and a summary of requirements specific to the system are received by PPD from the construction contractor, engineering contractor and Project Officer from CGS. This information is later used by PPD to ensure proper maintenance of its tank farms.

REGULATORY COMPLIANCE

PPD must adhere to various laws, regulations, guidelines and specifications relevant to aboveground fuel storage and distribution. Violations of regulatory compliance regulations often result in legal consequences, including federal fines and potential imprisonment.

When assessing which tank farms require upgrades, code compliance is always addressed to conform to the standards and regulations set out by law. There are numerous regulations for above ground storage facilities and distribution of petroleum products that PPD must adhere to, including, but not limited to:

- *Canadian Environmental Protection Act*
- *Canadian Shipping Act*
- *Measurements Canada*
- *National Fire Code of Canada*
- *Safety Act*

The American Petroleum Institute (API) Standards 650, 653, and 620 are the main industry standards by which most aboveground welded storage tanks are designed, constructed and maintained. Most tanks are designed and built to the API 650 standard. However, standards have changed over the last 20 plus years. This means that numerous tanks and tank farms throughout Nunavut do not meet code requirements at present, although PPD is working diligently to address all code compliance issues in a timely manner.

COMMUNITY CODE COMPLIANCE TIMELINE

PPD must ensure that all tank farms meet applicable guidelines. While it is not possible to upgrade all tank farms at once, PPD keeps a schedule to ensure ongoing compliance is achieved within communities as per regulations.

BULK FUEL FACILITIES UPGRADED IN 2018-19

In 2018-19, preliminary work commenced on fuel storage facility upgrades in the following four (4) communities:

- Kimmirut
- Clyde River
- Sanirajak
- Grise Fiord (overlapping into 2019)

BULK FUEL FACILITIES UPGRADED IN 2019-20

In 2019-20, the Gjoa Haven bulk fuel storage facility was undergoing a capacity expansion and code upgrade. In addition, fuel storage facility upgrades were tendered in the following four (4) communities:

- Kimmirut
- Clyde River
- Sanirajak

- Grise Fiord (overlapping from 2018)

BULK FUEL FACILITIES UPGRADED IN 2020-21

In 2020-21, the Gjoa Haven bulk fuel storage facility was completed, receiving its substantial completion in the fall of 2020. Code upgrades to facilities in Kimmirut, Clyde River, Sanirajak, and Grise Fiord were delayed due to the impact of COVID-19.

REGULATORS

PPD corresponds with multiple regulators on a regular basis to demonstrate PPD's conformance with all applicable laws and regulations. Various types of documents are routinely shared with regulators including, Environmental Emergency Plans, Monthly Inspection Checklists, Tank Farm Designs and As-built drawings.

Environment and Climate Change Canada, Transport Canada, Measurements Canada, and the Department of Environment within the GN are some of PPD's main regulators. Generally, enforcement officers from these divisions correspond with PPD and complete all inspections of PPD's infrastructure.

SALES FORECASTING AND PROJECTIONS

Most communities have experienced significant population growth since Nunavut became its own territory in 1999. New housing units and various infrastructure projects have been the primary drivers behind increased fuel consumption for air travel, home heating and electrical power generation in the territory. In the past 18 years, annual fuel consumption in Nunavut has risen by more than 40% from 148 million litres (1999) to 213 million litres (2019-20).

PPD completes annual forecasting of community needs to generate an accurate estimate for the annual bulk order for each community throughout Nunavut. The analysis is based on the historic consumption volumes for each community from 1999-2000 fiscal year and the most current fiscal year. PPD also orders 15% more fuel than is forecasted to account for sales volatility and dead space (fuel that is below suction, equivalent to approximately 4% of tank capacity).

COMMUNITY CAPACITY LEVELS

PPD not only needs to be aware of community usage to complete the bulk fuel order every year for the territory, but it needs to be aware of the limits within each community. Using sales forecasting and projections, PPD can determine which communities require capacity upgrades, in which year, and which do not.

PPD can also offset the capacity requirements at certain community tank farms by upwards of 500,000 to 2 million litres annually, with the condition that the vessel must be able to access the community for 3-4 months of the year (i.e., June to August/September).

CAPITAL PLANNING SUMMARY

As community populations increase in size throughout the territory, the need for additional fuel storage and delivery capacity also increases. It is PPD's responsibility to ensure that adequate infrastructure capacity exists to sufficiently meet local energy and transportation needs within each community. PPD meets this responsibility by ensuring that facility development and upgrade projects are funded through the GN's Capital Planning Process.

PPD's goal is to provide high quality facilities, designed and developed to meet local needs and the operational requirements of an Arctic jurisdiction. Reaching this objective requires a systematic process to ensure that all factors contributing to facility development are appropriately considered, and that various planning initiatives related to capital development are properly integrated.

Several critical issues require consideration and analysis:

- the age and condition of the existing facilities;
- prioritization of competing demands for new facilities and major renovations;
- the need for regulatory compliance;
- the integration of newer technology;
- the identification of capacity limitations through sales forecasting and projections; and
- the identification of opportunities for efficiency and capital improvements.

TRACKING INFRASTRUCTURE NEEDS

PPD tracks and monitors community facilities on an ongoing basis to ensure that sufficient capacity exists and that facilities are code compliant. PPD endeavors to identify capacity and code compliance issues as early as possible so that any required facility upgrade may be incorporated into the GN's Capital Planning Process without delay. In the past several years, GN capital funding dollars have become extremely limited and PPD has faced significant challenges in advancing many of its capital projects. PPD is facing a growing infrastructure deficit that can only be alleviated with significant investment in facility expansions and code upgrades (expand more in review phase).

ENVIRONMENT

ENVIRONMENTAL PROTECTION COMPLIANCE ORDERS (EPCOS)

As of 2019-20, environmental code deficiencies remain in 14 communities.

An Environmental Protection Compliance Order (EPCO) is one of the means by which Environment Canada ensures compliance with the *Canadian Environmental Protection Act* (CEPA). The CEPA authorizes enforcement officers to issue such an order where a person has committed an offence under the statute.

In 2008, Environment Canada established new codes under the CEPA and as a result, several communities in Nunavut were shown to be in violation of the new code requirements. Because of these violations, PPD was issued to draft EPCOs in 2012 relative to the communities of Sanikiluaq, Whale Cove, Rankin Inlet and Iqaluit. By in large, the compliance issues identified in the EPCOs included the absence of double-walled underground piping and a lack of overfill protection systems.

The identified issues were corrected in the four communities listed above and similar code deficiencies were corrected in a further four communities over the last few years. In 2019-20, code deficiencies corrective work was tendered for Clyde River, Sanirajak, Kimmirut and Grise Fiord.

At the end of the review year, code deficiencies remain in 14 communities and two outpost camps. Code deficiencies found in Gjoa Haven were remedied in 2018-19 as part of the facility upgrade that commenced that season.

The table below captures all communities in which code compliance issues have been identified, those which have been corrected to date, and those which are scheduled to be addressed in the upcoming years:



PPD Code Compliance, 2015 – 2021

PETROLEUM PRODUCTS DIVISION – CODE COMPLIANCE							
QIKIQTANI	2015	2016	2017	2018	2019	2020	2021
IQUALUIT	Code Compliant*						Planned Upgrade
IGLOOLIK		Code Compliant					
SANIRAJAK				Planned Upgrade		Code Compliant	Electrical Code Compliance Upgrade
POND INLET							Planned Upgrade
CLYDE RIVER				Planned Upgrade		Code Compliant	Electrical Code Compliance Upgrade
ARCTIC BAY							Planned Upgrade
GRISE FIORD						Code Compliant	Electrical Code Compliance Upgrade
RESOLUTE BAY	Code Compliant						
KIMMIRUT				Planned Upgrade		Code Compliant	Electrical Code Compliance Upgrade
KINNGAIT							Planned Upgrade
PANGNIRTUNG	Code Compliant						
QIKIQTARJUAQ							Planned Upgrade
KIVALLIQ							
RANKIN INLET		Code Compliant					
ARVIAT						Planned Upgrade	
CHESTERFIELD INLET			Code Compliant				
BAKER LAKE			Code Compliant				Tank cleaning and API
CORAL HARBOUR			Code Compliant				
NAUJAAT							Planned Upgrade
WHALE COVE		Code Compliant					
SANIKILUAQ		Code Compliant					
KITIKMEOT							
CAMBRIDGE BAY		Code Compliant					
KUGLUKTUK					Code		
BATHURST INLET				Decommissioning			
GJOA HAVEN T/F				Planned Upgrade		Code Compliant	
TALOYOAK							Need assessment for Taloyoak
KUGAARUK					Code		
UMINGMAKTOK				Decommissioning			

* Code Compliant* with EPCO, not Regulations

* Code Compliant: the year the facility was or is expected to be compliant

* Planned Upgrade: the expected construction start date of a capacity expansion project that has been substantiated

LANDFARMING

To effectively carry out its mandate, PPD requires operational processes that sometimes result in product releases into the environment causing the contamination of the soil, water, snow, etc. Such contaminated materials are often referred to as hazardous wastes which are then remediated in a landfarm. A landfarm is an ex-situ bioremediation technique commonly used to treat petroleum hydrocarbon (PHC) contaminated soil.

The Government of Nunavut owns a soil remediation landfarm in Rankin Inlet. The facility was originally built during tank farm upgrades in 2008 for the purposes of remediating PHC-contaminated soil which was excavated from around and within the tank farm. In 2016-17, following a spill on PPD's pipeline system, operational control of the landfarm was transferred from CGS to PPD to operate and manage the facility. In 2019-20, PPD continued to operate the landfarm and remediate the soil from its spill in 2016-17, as well as soils that had accumulated within the landfarm over a period of time. The remediation included a combination of aeration, microorganisms, and soil conditioning.

PPD has also been accepting contaminated soils from local government agencies and business in the community. In 2019-20, PPD developed a landfarm management plan to remediate contaminated soil spills. The landfarm management plan is achieved by spreading impacted soils in a thin layer across the landfarm area. Stimulation of microbial growth and activity for Petroleum Hydro Carbon (PHC) removal is accomplished primarily through the addition of air and nutrients. End products of bioremediation are microorganism protein, carbon dioxide, and water. Volatilization also remediates PHC-impacted soil in landfarm treatment because PHCs are transferred from the soil to the air as a result of low PHC boiling points. This practice enables contaminated soils to be treated and returned to their natural state following remediation, and avoids the high costs associated with shipping soils to Southern facilities for remediation.

FUEL SPILLS

2018-19

In 2018-19, there were 38 petroleum product spills directly related to PPD's fuel distribution operations, as shown in the following table.

PPD-Related Fuel Spills in Nunavut, 2018-19

QIKIQTANI COMMUNITIES	KIVALLIQ COMMUNITIES	KITIKMEOT COMMUNITIES
Pond Inlet - 2 Spills	Clyde River - 3 Spills	Kugaaruk - 1 Spill
Iqaluit – 5 Spills	Baker Lake – 6 Spills	Kugluktuk – 5 Spills
Pangnirtung – 1 Spill	Rankin Inlet – 3 Spills	Taloyoak – 1 Spill
Kinngait– 1 Spill	Arviat - 1 Spill	
Grise Fiord – 2 Spills	Sanikiluaq – 3 Spills	
Sanirajak– 1 Spill	Coral Harbour – 1 Spill	
Arctic Bay – 1 Spill		
Qikiqtarjuaq – 1 Spill		

2019-20

In 2019-20, there were four petroleum product spills directly related to PPD's fuel distribution operations, as shown in the following table.

PPD-Related Fuel Spills in Nunavut, 2019-20

QIKIQTANI COMMUNITIES	KIVALLIQ COMMUNITIES	KITIKMEOT COMMUNITIES
IQALUIT – 2 SPILLS	BAKER LAKE – 1 SPILL	
POND INLET – 1 SPILL		

As depicted from the tables above from 2018- 2020, most petroleum product spills occurred in Iqaluit, Baker Lake and Kugluktuk, these spills were due to the overfill of petroleum products in trucks. All fuel trucks have manufacturer overfill protection on them and all drivers are trained by various fuel contractors to ensure they are vigilant during filling of the trucks to avoid overfill which resulted in fuel spill.

2020-21

In March 2021, there was a major gasoline spill in Baker Lake (approximately 10,000 litres) due to ruptured drain valve at Tank #5 inside the Tank Farm. The environmental response team collected contaminated soil and water inside the temporary berm for further soil remediation from new landfarm. All damaged valves have been fixed and restored.

There was also a diesel spill in Pont Inlet and shore manifold valve leak in Rankin Inlet diesel line during the year 2021.

PPD-Related Fuel Spills in Nunavut, 2020-21

QIKIQTANI COMMUNITIES	KIVALLIQ COMMUNITIES	KITIKMEOT COMMUNITIES
Pond Inlet - 1 Spills	Baker Lake – 1 Spills Rankin Inlet – 1 Spills	

ENGINEERING

STANDARDS AND CRITERIA

PPD is in the process of developing new Above Ground Bulk Fuel Storage Design Rationale, Standards and Specifications for Nunavut.

PPD's existing Standards and Criteria were produced in 2006: since then, new regulations, guides, codes, and legislation have been passed, but are not reflected in these Standards and Criteria. As a result, PPD, in collaboration with the GN Infrastructure and Stantec, are in the process of developing new Above Ground Bulk Fuel Storage Design Rationale, Standards and Specifications for Nunavut. All regulatory requirements, including legislation, codes, regulations, standards and guidelines, will be captured and reflected in this update. The Standards and Criteria Package will include all aspects of design for Community Bulk Fuel, Airport Bulk Fuel, Distribution Systems, and Acceptable Practices for Compliance Testing.

The effort to update the current standards and criteria for petroleum infrastructure began in 2014. It was put on hold in 2015 due to various issues and was reinitiated in 2017. The project was placed on hold following the COVID-19 outbreak and was not finalized at the conclusion of the 2020-21 fiscal year.

HEALTH AND SAFETY

PPD is committed to reaching the highest health and safety standards by fostering a culture of health and safety awareness for all PPD staff and local contractors. PPD makes every effort to ensure that all personnel participate

in and attend a variety of safety training courses, follow health and safety legislation and all established rules, procedures and best practices.

PPD ensures that all contractors have the following:

- A valid driver's license for heavy truck operation;
- Last 5-year drivers' abstract;
- Possession of valid Airside Vehicle Operators Permit (AVOP) if operating a motor vehicle airside;
- Occupational Health and Safety training;
- First Aid training with certificate of completion;
- Workplace Hazardous Materials Information System (WHMIS) training; and
- Transportation of Dangerous Goods training with certificate of completion.

PPD has developed a Contractor's Manual that lists safety rules and regulations for new and existing contractors. It outlines the dangers of improperly handling petroleum products, the dangers of fuel vapours, characteristics of solvents, fire prevention, static electricity precautions, fire response procedures, handling fire extinguishers, Workers' Safety and Compensation Commission information, reporting injuries, spill prevention, spill response procedures, operations involved in bulk fuel storage facilities, facility inspections and inventory control, job hazard assessment, field level hazard assessment, personal protective equipment requirements, ground disturbance requirements, preventive maintenance, work permitting, safe work practices, daily toolbox talks, weekly safety meetings, health & safety key performance indicators reporting, incident reporting & investigation, health & safety site orientation etc.

Regional PPD officers meet with all contractors who work in the territory to review and explain safety information, including procedures and regulations on how petroleum products should be handled safely. Regional PPD officers and contractors also conduct an annual review of all safety information, procedures and regulations.

PPD provides all additional training for contractor employees responsible for fuel handling. The training includes, but is not limited to, fuel handling, aviation fuel handling, petroleum product inventory, product sampling, tank farm and dispensing facility inspections, responding to and reporting fuel spills, sales and volumes reporting and cash management training.

In the future, and to provide more hands-on training to local contractors, PPD will offer formal classroom courses for general maintenance, safety and spill response. Additional courses will also be offered on the topics of fuel handling and delivery, general bulk fuel storage facility maintenance and general site safety.

FINANCE

Financial performance of the Nunavut Petroleum Products Revolving Fund and Stabilization Fund is summarized in the following table (PPD profits and loss) and two figures (stabilization fund balance and PPD expenses).

PPD Profits and Loss (\$ 000s)

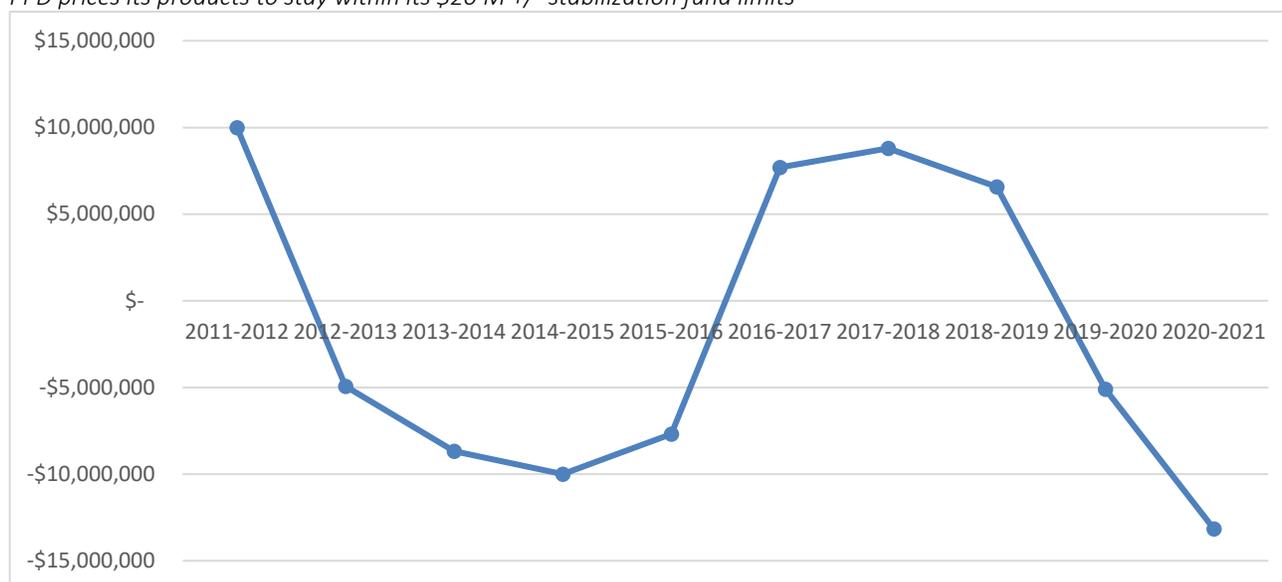
PPD financial results fluctuate each year

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Revenue										
Sale of petroleum products	\$ 202,005	\$ 209,112	\$ 206,316	\$ 223,099	\$ 213,736	\$ 189,914	\$ 194,265	\$ 203,609	\$ 202,498	\$ 184,531
Rent and other revenue	\$ 4,447	\$ 2,712	\$ 3,931	\$ 2,584	\$ 3,268	\$ 11,214	\$ 2,933	\$ 2,487	\$ -1,534	\$ 4,345
Total Revenue	\$ 206,452	\$ 211,824	\$ 210,247	\$ 225,683	\$ 217,004	\$ 201,128	\$ 197,198	\$ 206,096	\$ 200,964	\$ 188,876
Expenses										
Supply and Delivery	\$ 205,681	\$ 226,755	\$ 213,997	\$ 227,020	\$ 214,695	\$ 185,735	\$ 196,104	\$ 208,320	\$ 212,643	\$ 196,933
Profit (Loss)	\$ 771	-\$ 14,931	-\$ 3,750	-\$ 1,337	\$ 2,309	\$ 15,393	\$ 1,094	-\$ 2,224	-\$ 11,679	-\$ 8,057
Stabilization Fund Balance										
	\$ 10,000	-\$ 4,931	-\$ 8,681	-\$ 10,000	-\$ 7,691	\$ 7,702	\$ 8,796	\$ 6,572	-\$ 5,107	-\$ 13,164
Transfer to GN CRF	\$ 771	\$ -	\$ -	-\$ 285	\$ -					

Source: PPD Year-end financial statements

Stabilization Fund Balance (\$ M)

PPD prices its products to stay within its \$20 M +/- stabilization fund limits



OPERATIONS AND ACCUMULATED SURPLUS

2018-19

In 2018-19, sales revenue rose 4.8% percent over the previous year, while rent and other revenue declined by 15.2%.

Sales Revenues

Sales of product to Uqsuq Corporation in Iqaluit and bulk sales to QEC throughout the rest of the territory are priced at cost with no markup for either profit or overhead costs. Revenue from Uqsuq Corporation bulk sales remained stable between 2018-19 and 2017-18 with the increase in total revenue largely attributable to sales to QEC.

Rent and Other Revenues

Rent and other revenues declined in fiscal 2018-19 by \$446,000 or 15.2% versus the previous year were due chiefly to lower differential payments received from Uqsuq Corporation in Iqaluit.

2019-20

The 2019-20 sales fell 2.6% over the previous year, while rent and other revenue declined steeply by 161.7%.

Sales Revenues

Sales of product to Uqsuq Corporation in Iqaluit and bulk sales to QEC throughout the rest of the territory are priced at cost with no markup for either profit or overhead costs. Revenue from Uqsuq Corporation bulk sales rose between 2019-20 and 2018-19 despite total sales revenues declining slightly in the same period.

Rent and Other Revenues

Rent and other revenues declined steeply in fiscal 2019-20 by \$4,022,000 or 161.7% versus the previous year.

2020-21

In 2020-21 sales fell 8.9% over the prior year, while rent and other revenue increased sharply by 383.2%.

Sales Revenues

Sales of product to Uqsuq Corporation in Iqaluit and bulk sales to QEC throughout the rest of the territory are priced at cost with no markup for either profit or overhead costs. Revenue from Uqsuq Corporation bulk sales fell between 2020-21 and 2019-20; from \$54.9 million in 2019-20 to \$48.5 million in 2020-2, a decrease of 11.8%. A shift in sales of this nature to Uqsuq is not uncommon year-over-year.

Rent and Other Revenues

Rent and other revenues increased sharply in fiscal 2020-21 by \$5,879,000 or 383.2% versus the prior year.

SCHEDULE OF EXPENSES

2018-19

The increase in total expenditures in 2018-19 marginally outpaced that of sales revenue. Expenditures rose by \$12.2 million, or 6.2%, over the previous fiscal year. The cost of fuel products increased by \$16.1 million, or 9.9%; while commissions, salaries and wages, operations and maintenance, and amortization rose by 1.8%, 7.5%, 28%, and 51.7%, respectively. These increases were offset, in part, by decreases to bad debt, contracting and consulting, and travel and relocation expenses of 99.2%, 9.8%, and 11.8%, respectively.

Cost of Goods Sold

The average cost for all bulk fuel products increased in 2018-19 versus the previous year, most notably for Jet A-1. The cost of P50 diesel, gasoline, and Jet A-1 rose by \$0.0538/L, \$0.0265/L, and \$0.1255/L; 7.4%, 3.6%, and 20.3%, respectively. The increase in Jet A-1 is partly due to the new pricing mechanisms found with PPD's new bulk fuel purchases and delivery contract.

Commission Expenses

Commission expenses rose versus the previous year (\$14.2 versus \$13.9 million) due in part to the regularly schedule rate increases contained in the fuel delivery service agreements which became effective October 1st, 2016.

Other Expense Classes

Total expense items outside of cost of goods sold and fuel delivery commissions fell in aggregate by \$4.2 million, or 22.4%.

2019-20

The increase in total expenditures in 2019-20 exacerbated the marginal decline in revenues: expenditures rose by \$4.3 million, or 2.1%, over the previous fiscal year. Cost of goods sold (the cost of fuel products) rose by \$1.2 million, or 0.7%, while commissions, operations and maintenance, amortization, bad debt expense, contracting services, and travel costs rose by 0.4%, 27.8%, 47.2%, 1,674.4%, 9.9%, and 83.6%, respectively. Salaries, wages, and employee benefits was the only expense category to decline year-over-year; down \$325,000 or 6.1% versus 2018-19.

Cost of Goods Sold

The average cost for all bulk fuel products declined in 2019-20 compared to the previous year. The cost of P50 diesel, gasoline, and Jet A-1 fell by \$0.0888/L, \$0.1162/L, and \$0.0584/L; 11.4%, 15.3%, and 7.9%, respectively.

Commission Expenses

Commission expenses rose marginally by \$52,000 compared to the previous year due in part to the regularly schedule rate increases contained in the fuel delivery service agreements, which became effective October 1st, 2016.

Other Expense Classes

Total expense items outside of cost of goods sold and fuel delivery commissions rose in aggregate by \$3.1 million, or 21.3%.

2020-21

Expenditures in 2020-21 fell by \$15.7 million, or 7.4%, over the prior fiscal year. Cost of goods sold; the cost of fuel products, fell by \$15.6 million, or 8.6%, while commissions, amortization, bad debt expense, and travel costs fell by 3.0%, 0.2%, 81.1%, and 43.9%, respectively. Salaries, wages, and employee benefits, operations and maintenance, and contracting and consulting services increased by 2.4%, 18.8%, and 14.5%, respectively, versus 2019-20.

Cost of Goods Sold

The average cost for all bulk fuel products declined in 2020-21 versus the prior year, with the exception of gasoline. The cost of P50 diesel and Jet A-1 fell by \$0.0429/L and \$0.0555/L; 6.2% and 8.1%, respectively. The average cost of gasoline increased by \$0.0316/L or 4.9%.

Commission Expenses

Commission expenses fell by \$424,000 versus the prior year due to decreased sales volumes.

Other Expense Classes

Total expense items outside of cost of goods sold and fuel delivery commissions increased marginally in aggregate by \$268,000 or 1.5%.

STATEMENT OF FINANCIAL POSITION

2018-19

The inventory value of petroleum products rose significantly in 2018-19 due to the timing of early purchases. Accounts payable (AP) increased accordingly.

PPD may purchase and hold inventory of fuel both within and outside of Nunavut, depending on the timing of the fuel purchase. The year-end inventory value of petroleum products for 2018-19 rose significantly versus the previous year (\$154.9 million versus \$77.4 million; an increase of 100.2%) because of the timing of these purchases. The timing of early purchases also affects AP, as only a portion of the purchase price (e.g., 40 – 60%) is remitted when the fuel is secured. AP at 2018-19 year-end totaled \$38.1 million versus \$4.4 million in 2017-18, which is an increase of 768.3%.

Accounts receivable at year-end increased versus 2017-18 by \$12.4 million, mostly due to amounts owed from the Nunavut Housing Corporation (NHC). Amounts owed from NHC totaled 14.0 million, which is an increase of \$8.8 million or 168.6% versus the previous year.

2019-20

The inventory value of petroleum products rose significantly in 2019-20 due to the timing of early purchases. Accounts payable (AP) increased accordingly.

PPD may purchase and hold inventory of fuel both within and outside of Nunavut, depending on the timing of the fuel purchase. The year-end inventory value of petroleum products for 2019-20 rose significantly versus the previous year (\$235.8 million versus \$154.9 million; an increase of 52.2%) because of the timing of these purchases. The timing of early purchases also affects AP as only a portion of the purchase price (e.g., 40 – 60%) is remitted when the fuel is secured. AP at 2019-20 year-end totaled \$70.4 million versus \$38.1 million in 2018-19, an increase of 85.0%.

Accounts receivable at year-end increased versus 2019-20 by \$16.4 million with increased balances across all customer classes.

2020-21

The inventory value of petroleum products fell significantly in 2020-21 due to the timing of early purchases. Accounts Payable decreased accordingly. PPD may purchase and hold inventory of fuel both within and outside of Nunavut, depending on the timing of the fuel purchase. The year-end inventory value of petroleum products for 2020-21 fell significantly versus the prior year (\$140.6 million versus \$235.8 million; a decrease of 40.4%) because of the timing of these purchases. The timing of early purchases also affects accounts payable (AP) as only a portion of the purchase price (e.g., 40 – 60%) is remitted when the fuel is secured. AP at 2020-21 year-end totaled \$24.7 million versus \$70.4 million in 2019-20: a reduction of 64.9%.

Accounts receivable at year-end decreased versus 2019-20 by \$18.3 million with decreased balances across all customer classes.

YEAR-END AUDIT

2018-19

The preparation and audit of the 2018-19 financial statements were completed over a timeline similar to that in the previous year. The audit was again performed by PricewaterhouseCoopers (PwC).

The financial statements and audit report for 2018-19 were signed-off on August 21st, 2019, versus August 10th, 2018 for the 2017-18 year-end. Highlights of the audit report include:

- 1) Related Parties – as related parties, PPD must reconcile its revenue, expense, accounts payable, and accounts receivable balances with the GN, QEC, and the NHC. No significant related party transactions outside of the normal scope of business were identified and related party balance variances totaled \$2.1 million in aggregate.
- 2) Accounts Receivable – Two items of note in 2018-19 include (1) the lack of change in Allowance for Doubtful Accounts versus 2017-18 when it increased by \$5.5 million, and (2) the dramatic increase in amounts owed from NHC, which was up \$8.8 million versus the previous year, or 168.6%.
- 3) Adjusted Items – A correction \$2.9 million reduced the Allowance for Doubtful Accounts regarding amounts determined to be collectable, while a credit of \$1.8 million regarding GST was reclassified from accounts payable to accounts receivable.
- 4) Internal Control Recommendations
 - a. Resolved – Recommendations made in previous years regarding information technology system limitations, the documentation of journal entries, and the review of fuel sales metre tickets were observed and considered resolved by PwC.
 - b. Unresolved – PwC again noted the absence of a budget of changes in net financial assets (debt), shortcomings in the related party balance reconciliation process, and human resource constraints at PPD.
 - c. New – No new internal control recommendations were made for 2018-19.

2019-20

The preparation and audit of the 2019-20 financial statements was again performed by PricewaterhouseCoopers (PwC). The financial statements and audit report for 2019-20 were signed-off on October 20th, 2020, versus August 21st, 2019, for the 2018-19 year-end. Highlights of the audit report include:

- 1) Related Parties – As related parties, PPD must reconcile its revenue, expense, accounts payable, and accounts receivable balances with the Government of Nunavut, QEC, and the Nunavut Housing Corporation. No significant related party transactions outside of the normal scope of business were identified and related party balance variances totaled \$255,000 in aggregate.
- 2) Accounts Receivable – Amounts owing at year-end rose for all customer classes save the Federal Government of Canada; notably for the Commercial/Private customer class which increased by \$9.2

million, or 29.3%, versus 2018-19 year-end. Allowance for Doubtful Accounts rose by 5.5% and total Accounts Receivable by 27.0%.

- 3) Internal Control Recommendations – No new recommendations were offered.

2020-21

The preparation and audit of the 2020-21 financial statements was again performed by PricewaterhouseCoopers (PwC). The financial statements and audit report for 2020-21 were signed-off on October 8, 2021 versus October 20, 2020 for the 2019-20 year-end. Highlights of the audit report include:

- 1) Related Parties – as related parties, PPD must reconcile its revenue, expense, accounts payable, and accounts receivable balances with the Government of Nunavut, QEC, and the Nunavut Housing Corporation. No significant related party transactions outside of the normal scope of business were identified and related party balance variances totaled \$860,000 in aggregate.
- 2) Accounts Receivable – Amounts owing at year-end fell for all customer classes; total Accounts Receivable fell by \$18.3 million or 23.8%. Allowance for Doubtful Accounts fell marginally by \$144,000 or 1.0% versus 2019-20.
- 3) Internal Control Recommendations – No new Recommendations were offered.

PETROLEUM VARIANCES

Petroleum Variance: % of Total Litres Sold

FISCAL YEAR	PETROLEUM VARIANCE (Dollars)	PETROLEUM VARIANCE (Litres)	TOTAL SALES BY VOLUME (Litres)	VOLUME WRITTEN-OFF AS % OF TOTAL LITRES SOLD
2004-2005	\$ 867,128.65	373,355	140,170,412	0.27%
2005-2006	\$ 418,738.72	388,360	152,122,568	0.26%
2006-2007	\$ 1,059,968.00	1,711,525	170,277,723	1.01%
2007-2008	\$ 857,961.00	567,981	174,902,345	0.32%
2008-2009	\$ 1,733,449.00	1,635,415	168,448,338	0.97%
2009-2010	\$ 849,232.00	991,859	170,326,396	0.58%
2010-2011	\$ 703,280.00	1,047,991	179,719,258	0.58%
2011-2012	\$ 813,165.00	679,718	190,297,431	0.36%
2012-2013	\$ 468,162.74	369,060	192,787,613	0.19%
2013-2014	\$ 287,317.40	309,275	190,547,890	0.16%
2014-2015	\$ 87,213.00	53,257	196,957,656	-0.03%
2015-2016	\$ 175,720.17	189,755	206,716,344	0.09%
2016-2017	\$ 168,600.70	244,067	196,167,072	0.12%
2017-2018	\$ 172,825.74	103,153	204,074,499	-0.05%
2018-2019	\$ 699,031.50	820,284	203,705,509	0.40%
2019-2020	\$ 820,901.41	957,798	210,977,974	-0.45%
2020-2021	\$ 398,155.80	635,610	196,884,952	0.32%

2018-19

In 2018-19, PPD expensed \$699,031.50 regarding inventory variances for a total of 820,284 litres of fuel. There are two primary sources of fuel variance in the petroleum industry: (1) physical fuel loss due to evaporation, meter inaccuracy, theft or leakage and (2) adjusted losses due to inaccurate data, for example, missing sales, accounting errors, dip errors.

While PPD has numerous internal mechanisms in place to mitigate these potential sources of losses, some minimal variance is often unavoidable, notably where it concerns the impact of evaporation. The impact of 2018-19 write-off equates to approximately 0.4% of total sales volume: while it is greater than write-offs in recent years, this percentage is in line with historical figures. Above is an account of historical PPD write-offs and recoveries for fuel shrinkage.

2019-20

In 2019-20, PPD recovered \$820,901.41 regarding inventory variances for a total of 957,798 litres of fuel. There are two primary sources of fuel variance in the petroleum industry: (1) physical fuel loss due to evaporation, meter inaccuracy, theft or leakage and (2) adjusted losses due to inaccurate data, for example, missing sales, accounting errors, dip errors.

While PPD has numerous internal mechanisms in place to mitigate these potential sources of losses, some minimal variance is often unavoidable, notably where it concerns the impact of evaporation. The impact of 2019-20 recovery equates to approximately 0.45% of total sales volume. Above is an account of historical PPD write-offs and recoveries for fuel shrinkage.

2020-21

In 2020-21, PPD had an inventory variance of \$398,155.80; a total of 635,610 litres of fuel. There are two primary sources of fuel variance in the petroleum industry; physical fuel loss due to evaporation, meter inaccuracy, theft or leakage and adjusted losses due to inaccurate data, for example, missing sales, accounting errors, dip errors. While PPD has numerous internal mechanisms in place to mitigate these potential sources of losses, some minimal variance is often unavoidable, notably where it concerns the impact of evaporation. The impact of 2020-21 variance equates to approximately 0.32% of total sales volume. Above is an account of historical PPD write-offs and recoveries for fuel shrinkage.

AUDITED FINANCIAL STATEMENTS

NUNAVUT PETROLEUM PRODUCTS REVOLVING FUND

Independent auditor's report

To the Deputy Minister of Community and Government Services of the Government of Nunavut

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nunavut Petroleum Products Revolving Fund (the Fund) as at March 31, 2019 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at March 31, 2019;
 - the statement of operations and accumulated surplus for the year then ended;
 - the statement of changes in net financial debt for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Edmonton, Alberta
August 21, 2019

Management Responsibility For Financial Reporting

August 21, 2019

The preparation of these financial statements for the Nunavut Petroleum Products Revolving Fund (the "Fund"), and related information, is the responsibility of the Fund's management.

The financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS), which represent generally accepted accounting principles for government organizations as recommended by the Public Sector Accounting Board of Canada. When PSAS permits alternative accounting methods, management has chosen those it believes are most appropriate. Where required, management's best estimates and judgments have been applied in the preparation of these financial statements.

Management fulfills its accounting and reporting responsibilities by maintaining systems of financial management and internal control. These systems are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained, and the fund conducts its affairs in accordance with Nunavut's Financial Administration Act.

The Department of Community and Government Services is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control.

The Fund's independent external auditor, PricewaterhouseCoopers LLP, conducts an annual audit of the financial statements in order to express an opinion as to whether the statements present fairly, in all material respects, the financial position, results of operations and accumulated surplus, change in net financial assets and cash flow for the year. Their opinion is included with these financial statements.

Nathaniel Hutchinson
Director

Ford Widrig
Comptroller

Nunavut Petroleum Products Revolving Fund
Statement of Financial Position
As at March 31, 2019
(thousands of dollars)

	2019	2018
FINANCIAL ASSETS		
Cash	\$ 4,212	\$ 5,846
Accounts receivable (Note 3)	60,549	48,137
Inventories for resale (Note 4)	154,895	77,372
TOTAL FINANCIAL ASSETS	\$ 219,656	\$ 131,355
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	38,065	4,384
Employee leave and termination benefits	268	223
Due to the Government of Nunavut (Note 1&11)	183,581	128,026
TOTAL LIABILITIES	\$ 221,914	\$ 132,633
NET FINANCIAL DEBT	\$ (2,258)	\$ (1,278)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	2,258	1,278
TOTAL NON-FINANCIAL ASSETS	\$ 2,258	\$ 1,278
Accumulated surplus - end of the year	-	-

Commitments and contingencies (Note 12)

Approved by: **Management**

Director

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2019
(thousands of dollars)

	Unaudited 2019 Budget		2019 Actual		2018 Actual
Revenues					
Sale of petroleum products (Note 6)	\$ 182,786	\$	203,609	\$	194,265
Rent and other revenue (Note 7)	-		2,487		2,933
Total Revenue	\$ 182,786	\$	206,096	\$	197,198
Expenses					
Supply and delivery of petroleum products (Schedule A)	182,700		208,320		196,104
(Deficit) surplus for the year	\$ 86	\$	(2,224)	\$	1,094
Accumulated surplus - beginning of the year			-		-
Charge (transfer) to Government of Nunavut (Note 11)		\$	2,224	\$	(1,094)
Accumulated surplus - end of the year			-		-

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Changes in Net Financial Debt
For the year ended March 31, 2019
(thousands of dollars)

	2019 Actual	2018 Actual
(Deficit) surplus for the year	\$ (2,224) \$	1,094
Tangible capital assets		
Additions	(1,810)	-
Amortization	830	547
Disposals	-	-
	<u>\$ (980) \$</u>	<u>547</u>
Charge (transfer) to Government of Nunavut (Note 11)	<u>2,224</u>	<u>(1,094)</u>
Change in net financial debt	(980)	547
Net financial debt - beginning of the year	<u>(1,278)</u>	<u>(1,825)</u>
Net financial debt - end of the year	<u>\$ (2,258) \$</u>	<u>(1,278)</u>

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Cash Flow
For the year ended March 31, 2019
(thousands of dollars)

	2019	2018
Cash provided by (used for) operations		
Sale of petroleum products	\$ 191,198	\$ 213,913
Rent and other revenue	2,487	2,934
Supply and distribution of petroleum products	(251,288)	(189,042)
	(57,603)	27,805
Cash used for capital activities		
Tangible capital asset acquisitions	(1,810)	-
Cash used for financing activities		
Net borrowings from (payments to) Government of Nunavut	57,779	(27,493)
Net increase (decrease) in cash	(1,634)	312
Cash - beginning of the year	5,846	5,534
Cash - end of the year	\$ 4,212	\$ 5,846

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019
(in thousands of dollars, unless otherwise stated)

1. Authority and Operations

The Nunavut Petroleum Products Revolving Fund (the "Fund") operates under the authority of the *Financial Administration Act* and regulations and the *Revolving Funds Act* (the "Act"). The Petroleum Products Division of the Department of Community and Government Services of the Government of Nunavut (the "Government") is responsible for the administration of the Fund.

Under the Act, the Fund receives working capital advances from the Government's Consolidated Revenue Fund (the "CRF") to finance inventory, accounts receivable and operating expenses. The Fund's purchases of petroleum products and operating expenses are paid from the CRF and funds received by the Fund are deposited in the CRF. The authorized maximum amount of working capital advances which can be made to the Fund is \$200 million. At March 31, 2019, the Fund's advance from the Government of Nunavut did not exceed the \$200 million authorized maximum limit.

The prices for the Fund's petroleum products are approved by the Government. It is the expectation of the Government that the Fund's cost of goods sold and operating expenses will be recovered through the price structure to achieve a break-even operation. Under the Act, there is a special account in the Government's CRF called the Petroleum Products Stabilization Fund to which profits of the Fund shall be credited and losses shall be charged.

Budget

Generally accepted accounting principles (GAAP) for public sector in Canada requires a government to present in its financial statements a comparison of the results of operations and changes in net financial assets (debt) for the year with those originally planned.

The Fund did not prepare a budget of changes in net financial assets (debt) for the year and as such it has not been presented in these financial statements. The unaudited budget figures included in the Statement of Operations and Accumulated Surplus are in accordance with page J8 of the approved 2018-2019 Main Estimates.

2. Significant Accounting Policies

a. Basis of Accounting

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSAS), as recommended by the Public Sector Accounting Board of Canada.

b. Inventories for resale

Inventories held for resale consist of petroleum products and are valued at the lower of weighted average cost and net realizable value. Inventories which are held with third parties are carried at the lower of cost and net realizable value.

c. Cash

Cash is comprised of the Fund's bank account balance net of outstanding cheques.

d. Non-financial assets

Non-financial assets, including tangible capital assets, are accounted for by the Fund only if they are expected to be used to provide services in future years. These assets would not normally be used to provide financial resources to discharge liabilities of the Fund unless they were sold. Non-financial assets are amortized or charged to expenses in future periods as they are used to provide or support the provision of Fund services.

e. Tangible capital assets

Tangible capital assets are non-financial assets whose useful life exceeds one fiscal year and are intended to be used on an ongoing basis for delivering Fund services. Tangible capital assets with a cost of less than fifty thousand dollars are fully expensed in the year of acquisition. The Fund's tangible capital assets are fuel delivery vehicles which are recorded at cost and amortized on a straight line basis over their estimated useful life of 5 years.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019

(in thousands of dollars, unless otherwise stated)

f. Services provided without charge

Tangible capital assets

The Fund does not record the value of certain tangible capital assets used in its operations. The tangible capital assets include fuel storage facilities owned by the Government which are provided without charge to the Fund. The Fund is responsible for any minor maintenance costs related to these tangible capital assets.

Financing costs

The Fund receives working capital advances from the CRF to finance its inventory, accounts receivable and operating expenses. The working capital advances from the CRF are provided without charge to the Fund by the Government.

Environmental remediation costs

The Government has assumed responsibility for funding any environmental remediation costs associated with the Fund's operations that incurred prior to the formation of the Territory of Nunavut in 1999 and for remediation and asset retirement costs associated with Tangible Capital assets owned by the Government.

Other services provided without charge

The Fund does not record the following services provided without charge by the Government: the procurement of goods and services, the processing of payroll, personnel services, and legal counsel.

g. Pension plan

The Fund and its employees, who are deemed to be employees of the Government, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. This multi-employer plan is a defined benefit pension plan for which the Fund and the employees are both required to contribute to the cost of the plan. The general contribution rate multiple effective at year end was 1.01 times for members enrolled prior to January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013 (2018 - 1.01 times for members enrolled before January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013). As the plan is accounted for as a multi-employer plan and actuarial information on the plans surplus/deficit is not readily available, the plan is measured using the defined contribution contributions are charged as an expense on a current year basis and represent the total pension obligation.

The Fund is not required under present plan legislation to make contributions with respect to actuarial deficiencies to the Public Service Superannuation Account.

h. Employee leave and termination benefits

Under the terms and conditions of employment, employees may qualify and earn employment benefits for termination and removal costs based on years of service. The estimated liability for these benefits is based on an actuarial valuation prepared for this purpose and is recorded as the benefits are earned by the employees.

i. Measurement uncertainty

Financial statements prepared in accordance with Canadian public sector accounting standards require management to make estimates and judgments that affect the amounts and disclosures reported in the financial statements.

The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts and the provision to reduce inventories to their net realizable value. Actual results may differ from those estimates, although management does not believe that any differences would materially affect the Fund's financial position or reported results of its operations.

j. Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events give rise to the revenues. For the sale of petroleum products, revenue is recognized when the product is delivered to the customer and collection is reasonably assured.

Revenue related to services and products received in advance of being earned are deferred and recognized when the services are performed and products delivered.

Recoveries of prior years expenditures, including reversals of prior years expenditure over-accruals, are disclosed in note 7 rent and other revenue. Pursuant to the Financial Administration Act, these recoveries cannot be used to increase the amount appropriated for current year expenditures.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019

(in thousands of dollars, unless otherwise stated)

k. Expenses

Expenses are recorded on an accrual basis.

l. Contractual obligations and contingencies

The nature of the Fund's activities requires negotiation of contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual obligations pertain to fuel resupply and delivery agreements with fuel suppliers, wholesale customers and community contractors. Contractual obligations are not accrued until the terms of those contracts or agreements are met.

The contingencies of the Fund 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 and is quantifiable, an estimated liability is accrued. If the likelihood is not determinable or the amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements and no liability is accrued. Contingent liabilities result from among other things, potential environmental contingencies.

m. Financial instruments

Financial instruments include cash, accounts receivable, due to the Government of Nunavut, and accounts payable and accrued liabilities.

These financial instruments are measured at amortized cost. Gains and losses are recognized in the Statement of Operations and Accumulated Surplus when these financial instruments are derecognized due to disposal or impairment.

Transaction costs related to the acquisition of these financial instruments are included in the cost of the related instruments.

The fair values of the Fund's cash, accounts receivable, due to the Government of Nunavut and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

n. Adoption of new accounting standards and future changes in accounting standards

A new standard issued by PSAB came into effect on April 1, 2018. The Fund has prospectively adopted the following standard from April, 1, 2018:

PS 3430 - Restructuring Transactions (effective April 1, 2018) defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. The adoption of this standard has no impact on the Fund.

A number of new and amended standards issued by PSAB are not yet effective and have not been applied in preparing these financial statements. The following standards for governments will become effective as follows:

PS 1201 - Financial Statement Presentation (effective April 1, 2021), replaces PS 1200 with revised general reporting principles and standards of presentation and disclosure for government financial statements.

PS 2601 - Foreign Currency Translation (effective April 1, 2021), replaces PS 2600 with revised guidance on the recognition, presentation and disclosure of transactions and balances that are denominated in a foreign currency.

PS 3041 - Portfolio Investments (effective April 1, 2021), replaces PS 3040 with revised guidance on accounting for, and presentation and disclosure of, portfolio investments.

PS 3450 - Financial Instruments (effective April 1, 2021), a new standard establishing guidance on the recognition, measurements, presentation and disclosure of financial instruments, including derivatives.

PS 3280 - Asset retirement obligations (effective April 1, 2021), provides guidance on how to account for and report a liability for retirement of tangible capital assets.

PS 3400 - Revenue (effective April 1, 2022), provides guidance on how to account for and report on revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions.

The Fund plans to adopt these new and amended standards on their effective dates and is currently assessing the impact they will have on its financial statements.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019
(in thousands of dollars, unless otherwise stated)

3. Accounts receivable

	2019	2018
Commercial/Private	\$ 31,369	\$ 32,492
Territorial Municipalities and Housing Associations	5,708	5,128
Nunavut Housing Corporation	14,022	5,220
Qulliq Energy Corporation	16,115	15,891
Government of Nunavut - Community and Government Services Department	3,848	2,345
Government of Canada	3,410	941
	<u>74,472</u>	<u>62,017</u>
Less: Allowance for doubtful accounts	(13,923)	(13,880)
	<u>\$ 60,549</u>	<u>\$ 48,137</u>

4. Inventories for resale

	2019	2018
Heating fuel	\$ 75,221	\$ 49,953
Other fuel	53,608	17,435
Gasoline	26,066	9,984
	<u>\$ 154,895</u>	<u>\$ 77,372</u>

Inventories of \$699 were written-off in 2019 to reflect the evaporation and shrinkage that occurred during the annual discharge and dispensing of fuel (2018 - \$173 recovered due to variances in physical counts with initial inventory records). Inventories include \$83,558 of fuel products held by a third party and carried at cost (2018 - \$7,071 of fuel products held by a third party and carried at cost).

5. Accounts payables and accrued liabilities

	2019	2018
Accrued liabilities	\$ 35,357	\$ 1,908
Fuel and sales taxes payable (receivable)	(20)	(318)
Accounts payable	2,728	2,794
	<u>\$ 38,065</u>	<u>\$ 4,384</u>

As explained in note 12d, accrued liabilities in fiscal 2019 included a provision for oil spill costs of \$941 (2018 - \$1,117).

6. Sale of petroleum products

	2019	2018
Wholesale	\$ 56,401	\$ 39,598
Commercial/Private	57,749	73,715
Territorial Municipalities and Housing Associations	11,724	10,839
Nunavut Housing Corporation	21,772	19,845
Qulliq Energy Corporation	42,389	38,783
Government of Canada	4,094	2,980
Government of Nunavut	9,480	8,505
	<u>\$ 203,609</u>	<u>\$ 194,265</u>

A private contractor in Iqaluit is charged the landed cost of the fuel. The Fund pays or receives the price differential between the approved selling prices set by the Government and a negotiated selling price which would permit the private contractor to earn a fair return on fuel sales.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019
(in thousands of dollars, unless otherwise stated)

7. Rent and other revenue

	2019	2018
Rent and other income	\$ 2,487	\$ 2,932
Interest income	-	1
	<u>\$ 2,487</u>	<u>\$ 2,933</u>

Rent includes leasing fees received from private contractors who are leasing fuel storage facilities in Iqaluit. Interest income includes financing charges on accounts receivable and bank interest.

8. Tangible capital assets

	2019	2018
Fuel delivery vehicles		
Cost of tangible capital assets		
Opening balance	\$ 15,122	\$ 15,122
Additions	1,810	-
Disposals	-	-
Closing balance	<u>\$ 16,932</u>	<u>\$ 15,122</u>
Accumulated amortization		
Opening balance	(13,844)	(13,297)
Amortization	(830)	(547)
Disposals	-	-
Closing balance	<u>\$ (14,674)</u>	<u>\$ (13,844)</u>
Net book value	<u>\$ 2,258</u>	<u>\$ 1,278</u>

9. Financing costs

Management estimated that the financing costs relating to its working capital advances from the Government were \$1,184 for 2019 (2018 - \$3,382). The financing cost is based upon the average monthly balances due to the Government at a monthly average borrowing rate applicable to the Government. The borrowing rate ranged from 1.92% to 2.46% during the year (2018 - 1.17% to 1.93%). These financing costs are not charged to the Fund by the Government.

10. Related party transactions

The Fund is controlled by the Government of Nunavut and related to Qulliq Energy Corporation and Nunavut Housing Corporation through common control. The Fund enters into transactions with these entities in the normal course of operations. In addition to the significant transactions with related parties disclosed elsewhere in the financial statements the Fund is related in terms of common ownership to all Government created departments, agencies and Crown corporations

A portion of the total annual sales to Qulliq Energy Corporation are priced at cost; the per-litre cost of fuel and associated freight with no added margin. These are referred to as, "bulk sales" and represent fuel purchased by Qulliq Energy Corporation for generating power throughout the Territory. In 2018-19, bulk sales to Qulliq Energy Corporation totalled 19,597,379 litres at a value of \$17,789 (2018 - 19,516,773 litres at a value of \$16,235). The Fund also incurred expenses totalling \$974 (2018 - \$952) from Qulliq Energy Corporation.

11. Transfer to Government of Nunavut

The Fund operates under the authority of the Revolving Fund Act. Under the Act, the Fund transfers its surplus or deficit to the Government and the funds are recorded in a special account in the CRF called the Petroleum Products Stabilization Fund (Stabilization Fund). At March 31, 2019, the Fund recorded a charge to the Government of Nunavut of \$2,224 (2018 - \$1,094 transfer) in the Statement of Operations and Accumulated Surplus pursuant to the Act.

The accumulated surplus or deficit balance in the Stabilization Fund cannot exceed \$10,000. As at March 31, 2019, the Stabilization Fund surplus was \$6,572 (2018 - \$8,796) and is recorded and maintained by the Government of Nunavut

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2019
(in thousands of dollars, unless otherwise stated)

12. Commitments and contingencies

a. Fuel supply and transportation contracts

After the 2017 re-supply season, multiple contracts with Woodward's Oil Limited for the supply and transportation of petroleum products expired. Following the RFP procurement process, AV Nunavut Fuels Inc., in partnership with Woodward's Oil Limited, was selected as the successful proponent to provide fuel supply and transportation services throughout Nunavut under a single contract. This new contract has a term of five years, commencing March 1, 2018.

b. Wholesale resupply contracts

Iqaluit

The Government entered into a five-year contract, which expired November 2017, with Uqsuq Corporation ("Uqsuq") where Uqsuq will lease and operate the fuel storage facility in Iqaluit. Under this contract Uqsuq buys fuel from the Government through the Fund at the landed cost and resells fuel products at prices approved by the Government to residents and businesses of Iqaluit. Following Cabinet approval, several extensions with Uqsuq were granted via negotiated contract which expire in November 2020.

c. Community fuel delivery contracts

The Fund provides fuel delivery services in 25 communities in Nunavut. These services are carried out through formal fuel delivery contracts which are awarded by the Government to local individuals or businesses residing in the respective communities. Contracts were awarded for 23 communities on November 1, 2016 and will expire October 31, 2026. During the year, two contracts were amended, Clyde River and Cambridge Bay, the effective dates of these contracts are September 1, 2018 until October 31, 2026 and January 14, 2019 until May 31, 2020 respectively.

Of the remaining two communities, one was awarded for Rankin Inlet on November 1, 2017 and will expire November 30, 2027. The final community; Iqaluit, received a one year contract extension which expires in November, 2020. Under the contracts, private contractors are paid a commission for services rendered on a, "cents per litre" basis.

d. Environmental site assessments and remediation costs

In the course of normal operations the Fund may become responsible for certain remediation costs related to its tank farms. The cost of such remediation work is not accrued until either a decision to remediate by the entity occurs or the contamination exceeds current environmental health standards, and the cost and timing of the remediation work can be reasonably estimated.

The Fund's accrued estimated cost of remediation is as follows:

Location	Nature of the Environmental Liability	2018		2019	
		Accrued Liability	Work Completed/ Change in Estimated Accrued Liability	Accrued Liability	
Baker Lake	Fuel spill with the potential contamination of 4,000 M ³ of soil	\$ 866	\$ -	\$ 866	
Resolute Bay	Approximately 100,000 L of gasoline spilled at one of the Fund's fuel storage facilities	\$ 101	\$ (26)	\$ 75	
Gjoa Haven	Fuel spill of approximately 2,000 L of Jet A-1 requiring remedial action	\$ 210	\$ (210)	\$ -	
		<u>\$ 1,177</u>	<u>\$ (236)</u>	<u>\$ 941</u>	

The above liabilities are based on the contractors' quotes for remediation of the respective sites. The amounts are undiscounted and net present value technique has not been used since the Fund expects to do the remediation work in the near future. The above figures do not include any recoveries. If they exist, the Fund expects to collect them via

Nunavut Petroleum Products Revolving Fund

Notes to the Financial Statements

March 31, 2019

(in thousands of dollars, unless otherwise stated)

insurance or from the fuel delivery contractors in the respective communities.

In prior years, an Environmental Protection Compliance Order (EPCO) was issued to the Fund for deficiencies in Rankin Inlet. The Fund has not included a liability associated with the EPCO as it relates to assets owned by the Government and hence the Government has taken responsibility for the EPCO through its capital projects.

13. Contingent Assets

The Fund has no contingent assets at March 31, 2019.

14. Contractual Rights

The Fund has no material rights arising from contracts or agreements that will result in both an asset and revenue in the future when the terms of those contracts or agreements are met.

15. Financial risk management

The fund has exposure to the following risks from its use of financial instruments: liquidity risk and credit risk.

a) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty meeting obligations associated with financial liabilities. The Fund's financial assets and liabilities, with the exception of amounts due to the Government of Nunavut are expected to be settled in less than 6 months. The Fund enters into transactions to purchase goods and services on credit. Liquidity risk is measured by reviewing the Fund's future net cash flows for the possibility of a negative cash flow. The Fund manages the liquidity risk resulting from its accounts payable obligations by maintaining sufficient cash resources and available working capital advances from the Government of Nunavut.

b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund's maximum exposure to credit risk is the carrying value of its accounts receivable. A significant amount of the Fund's accounts receivable is due from government entities and, as such, has low credit risk. The Fund manages credit risk through monitoring of the outstanding balances. At March 31, 2019, allowance for doubtful accounts of \$16,829 was recorded.

Nunavut Petroleum Products Revolving Fund
 Schedule of Expenses by Type
 For the year ended March 31, 2019
(thousands of dollars)

Schedule A

	2019		2018	
	<u>Supply & Delivery of Petroleum Products</u>		<u>Supply & Delivery of Petroleum Products</u>	
Expense type:				
Cost of goods sold	\$	179,790	\$	163,660
Commissions		14,162		13,917
Salaries, wages and employee benefits		5,290		4,922
Operations and maintenance		4,407		3,444
Amortization		830		547
Bad debt expense		43		5,381
Contract and consulting services		2,876		3,188
Travel and relocation		922		1,045
Total expense	\$	208,320	\$	196,104

Independent auditor's report

To the Deputy Minister of Community and Government Services of the Government of Nunavut

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nunavut Petroleum Products Revolving Fund (the Fund) as at March 31, 2020 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at March 31, 2020;
 - the statement of operations and accumulated surplus for the year then ended;
 - the statement of changes in net financial debt for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Edmonton, Alberta
October 20, 2020

Nunavut Petroleum Products Revolving Fund

Financial Statements
March 31, 2020



Management Responsibility For Financial Reporting

October 20, 2020

The preparation of these financial statements for the Nunavut Petroleum Products Revolving Fund (the "Fund"), and related information, is the responsibility of the Fund's management.

The financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS), which represent generally accepted accounting principles for government organizations as recommended by the Public Sector Accounting Board of Canada. When PSAS permits alternative accounting methods, management has chosen those it believes are most appropriate. Where required, management's best estimates and judgments have been applied in the preparation of these financial statements.

Management fulfills its accounting and reporting responsibilities by maintaining systems of financial management and internal control. These systems are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained, and the fund conducts its affairs in accordance with Nunavut's Financial Administration Act.

The Department of Community and Government Services is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control.

The Fund's independent external auditor, PricewaterhouseCoopers LLP, conducts an annual audit of the financial statements in order to express an opinion as to whether the statements present fairly, in all material respects, the financial position, results of operations and accumulated surplus, change in net financial assets and cash flow for the year. Their opinion is included with these financial statements.

Nathaniel Hutchinson
Director

Emerlinda Pimentel
Acting Comptroller

Nunavut Petroleum Products Revolving Fund**Statement of Financial Position****As at March 31, 2020***(thousands of dollars)*

	2020	2019
FINANCIAL ASSETS		
Cash	\$ 322	\$ 4,212
Accounts receivable (Note 3)	76,912	60,549
Inventories for resale (Note 4)	235,762	154,895
TOTAL FINANCIAL ASSETS	\$ 312,996	\$ 219,656
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	70,404	38,065
Employee leave and termination benefits	336	268
Due to the Government of Nunavut (Note 1&11)	245,809	183,581
TOTAL LIABILITIES	\$ 316,549	\$ 221,914
NET FINANCIAL DEBT	\$ (3,553)	\$ (2,258)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	3,553	2,258
TOTAL NON-FINANCIAL ASSETS	\$ 3,553	\$ 2,258
Accumulated surplus - end of the year	-	-

Commitments and contingencies (Note 12)

Approved by: **Management****Director**

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2020
(thousands of dollars)

	Unaudited 2020 Budget		2020 Actual		2019 Actual
Revenues					
Sale of petroleum products (Note 6)	\$ 199,634	\$	202,498	\$	203,609
Rent and other revenue (expense) (Note 7)	-		(1,534)		2,487
Total Revenue	\$ 199,634	\$	200,964	\$	206,096
Expenses					
Supply and delivery of petroleum products (Schedule A)	208,946		212,643		208,320
Deficit for the year	\$ (9,312)	\$	(11,679)	\$	(2,224)
Accumulated surplus - beginning of the year			-		-
Charge to Government of Nunavut (Note 11)		\$	11,679	\$	2,224
Accumulated surplus - end of the year			-		-

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Changes in Net Financial Debt
For the year ended March 31, 2020
(thousands of dollars)

	2020		2019
	Actual		Actual
Deficit for the year	\$ (11,679)	\$	(2,224)
Tangible capital assets			
Additions	(2,517)		(1,810)
Amortization	1,222		830
Disposals	-		-
	\$ (1,295)	\$	(980)
Charge to Government of Nunavut (Note 11)	11,679		2,224
Change in net financial debt	(1,295)		(980)
Net financial debt - beginning of the year	(2,258)		(1,278)
Net financial debt - end of the year	\$ (3,553)	\$	(2,258)

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Cash Flow
For the year ended March 31, 2020
(thousands of dollars)

	2020	2019
Cash provided by (used for) operations		
Sale of petroleum products	\$ 186,133	\$ 191,198
Rent and other revenue	(1,535)	2,487
Supply and distribution of petroleum products	(259,880)	(251,288)
	<u>(75,282)</u>	<u>(57,603)</u>
Cash used for capital activities		
Tangible capital asset acquisitions	(2,517)	(1,810)
Cash used for financing activities		
Net borrowings from (payments to) Government of Nunavut	73,909	57,779
Net increase (decrease) in cash	(3,890)	(1,634)
Cash - beginning of the year	4,212	5,846
Cash - end of the year	\$ 322	\$ 4,212

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

1. Authority and Operations

The Nunavut Petroleum Products Revolving Fund (the "Fund") operates under the authority of the *Financial Administration Act* and regulations and the *Revolving Funds Act* (the "Act"). The Petroleum Products Division of the Department of Community and Government Services of the Government of Nunavut (the "Government") is responsible for the administration of the Fund.

Under the Act, the Fund receives working capital advances from the Government's Consolidated Revenue Fund (the "CRF") to finance inventory, accounts receivable and operating expenses. The Fund's purchases of petroleum products and operating expenses are paid from the CRF and funds received by the Fund are deposited in the CRF. The authorized maximum amount of working capital advances which can be made to the Fund is \$250 million (2019 - \$200M). At March 31, 2020, the Fund's advance from the Government of Nunavut did not exceed the \$250 million authorized maximum limit.

The prices for the Fund's petroleum products are approved by the Government. It is the expectation of the Government that the Fund's cost of goods sold and operating expenses will be recovered through the price structure to achieve a break-even operation. Under the Act, there is a special account in the Government's CRF called the Petroleum Products Stabilization Fund to which profits of the Fund shall be credited and losses shall be charged.

Budget

Generally accepted accounting principles (GAAP) for public sector in Canada requires a government to present in its financial statements a comparison of the results of operations and changes in net financial assets (debt) for the year with those originally planned.

The Fund did not prepare a budget of changes in net financial assets (debt) for the year and as such it has not been presented in these financial statements. The unaudited budget figures included in the Statement of Operations and Accumulated Surplus are in accordance with page J8 of the approved 2019-2020 Main Estimates.

2. Significant Accounting Policies

a. Basis of Accounting

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSAS), as recommended by the Public Sector Accounting Board of Canada.

b. Inventories for resale

Inventories held for resale consist of petroleum products and are valued at the lower of weighted average cost and net realizable value. Inventories which are held with third parties are carried at the lower of cost and net realizable value.

c. Cash

Cash is comprised of the Fund's bank account balance net of outstanding cheques.

d. Non-financial assets

Non-financial assets, including tangible capital assets, are accounted for by the Fund only if they are expected to be used to provide services in future years. These assets would not normally be used to provide financial resources to discharge liabilities of the Fund unless they were sold. Non-financial assets are amortized or charged to expenses in future periods as they are used to provide or support the provision of Fund services.

e. Tangible capital assets

Tangible capital assets are non-financial assets whose useful life exceeds one fiscal year and are intended to be used on an ongoing basis for delivering Fund services. Tangible capital assets with a cost of less than fifty thousand dollars are fully expensed in the year of acquisition. The Fund's tangible capital assets are fuel delivery vehicles which are recorded at cost and amortized on a straight line basis over their estimated useful life of 5 years.

f. Services provided without charge

Tangible capital assets

The Fund does not record the value of certain tangible capital assets used in its operations. The tangible capital assets include fuel storage facilities owned by the Government which are provided without charge to the Fund. The Fund is responsible for any minor maintenance costs related to these tangible capital assets.

Financing costs

The Fund receives working capital advances from the CRF to finance its inventory, accounts receivable and operating expenses. The working capital advances from the CRF are provided without charge to the Fund by the Government.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

Environmental remediation costs

The Government has assumed responsibility for funding any environmental remediation costs associated with the Fund's operations that incurred prior to the formation of the Territory of Nunavut in 1999 and for remediation and asset retirement costs associated with Tangible Capital assets owned by the Government.

Other services provided without charge

The Fund does not record the following services provided without charge by the Government: the procurement of goods and services, the processing of payroll, personnel services, and legal counsel.

g. Pension plan

The Fund and its employees, who are deemed to be employees of the Government, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. This multi-employer plan is a defined benefit pension plan for which the Fund and the employees are both required to contribute to the cost of the plan. The general contribution rate multiple effective at year end was 1.01 times for members enrolled prior to January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013 (2020 - 1.01 times for members enrolled before January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013). As the plan is accounted for as a multi-employer plan and actuarial information on the plans surplus/deficit is not readily available, the plan is measured using the defined contribution contributions are charged as an expense on a current year basis and represent the total pension obligation. The Fund is not required under present plan legislation to make contributions with respect to actuarial deficiencies to the Public Service Superannuation Account.

h. Employee leave and termination benefits

Under the terms and conditions of employment, employees may qualify and earn employment benefits for termination and removal costs based on years of service. The estimated liability for these benefits is based on an actuarial valuation prepared for this purpose and is recorded as the benefits are earned by the employees.

i. Measurement uncertainty

Financial statements prepared in accordance with Canadian public sector accounting standards require management to make estimates and judgments that affect the amounts and disclosures reported in the financial statements. The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts and the provision to reduce inventories to their net realizable value. Actual results may differ from those estimates, although management does not believe that any differences would materially affect the Fund's financial position or reported results of its operations.

The impact of the coronavirus (COVID-19) outbreak on the financial performance of the Fund will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted but could have impacts on the Fund's operations.

j. Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events give rise to the revenues. For the sale of petroleum products, revenue is recognized when the product is delivered to the customer and collection is reasonably assured.

Revenue related to services and products received in advance of being earned are deferred and recognized when the services are performed and products delivered.

Recoveries of prior years expenditures, including reversals of prior years expenditure over-accruals, are disclosed in note 7 rent and other revenue. Pursuant to the Financial Administration Act, these recoveries cannot be used to increase the amount appropriated for current year expenditures.

k. Expenses

Expenses are recorded on an accrual basis.

l. Contractual obligations and contingencies

The nature of the Fund's activities requires negotiation of contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual obligations pertain to fuel resupply and delivery agreements with fuel suppliers, wholesale customers and community contractors. Contractual obligations are not accrued until the terms of those contracts or agreements are met.

The contingencies of the Fund 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 and is quantifiable, an estimated liability is accrued. If the likelihood is not determinable or the amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements and no liability is accrued. Contingent liabilities result from among other things, potential environmental contingencies.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

m. Financial instruments

Financial instruments include cash, accounts receivable, due to the Government of Nunavut, and accounts payable and accrued liabilities.

These financial instruments are measured at amortized cost. Gains and losses are recognized in the Statement of Operations and Accumulated Surplus when these financial instruments are derecognized due to disposal or impairment.

Transaction costs related to the acquisition of these financial instruments are included in the cost of the related instruments.

The fair values of the Fund's cash, accounts receivable, due to the Government of Nunavut and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

n. Adoption of new accounting standards and future changes in accounting standards

A number of new and amended standards issued by PSAB are not yet effective and have not been applied in preparing these financial statements. The following standards for governments will become effective as follows:

PS 1201 - Financial Statement Presentation (effective April 1, 2021), replaces PS 1200 with revised general reporting principles and standards of presentation and disclosure for government financial statements.

PS 2601 - Foreign Currency Translation (effective April 1, 2021), replaces PS 2600 with revised guidance on the recognition, presentation and disclosure of transactions and balances that are denominated in a foreign currency.

PS 3041 - Portfolio Investments (effective April 1, 2021), replaces PS 3040 with revised guidance on accounting for, and presentation and disclosure of, portfolio investments.

PS 3450 - Financial Instruments (effective April 1, 2021), a new standard establishing guidance on the recognition, measurements, presentation and disclosure of financial instruments, including derivatives.

PS 3280 - Asset retirement obligations (effective April 1, 2021), provides guidance on how to account for and report a liability for retirement of tangible capital assets.

PS 3400 - Revenue (effective April 1, 2022), provides guidance on how to account for and report on revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions.

The Fund plans to adopt these new and amended standards on their effective dates and is currently assessing the impact they will have on its financial statements.

3. Accounts receivable

	2020	2019
Commercial/Private	\$ 40,566	\$ 31,369
Territorial Municipalities and Housing Associations	6,442	5,708
Nunavut Housing Corporation	15,664	14,022
Qulliq Energy Corporation	21,712	16,115
Government of Nunavut - Community and Government Services Department	5,595	3,848
Government of Canada	1,619	3,410
	<u>91,598</u>	<u>74,472</u>
Less: Allowance for doubtful accounts	<u>(14,686)</u>	<u>(13,923)</u>
	<u>\$ 76,912</u>	<u>\$ 60,549</u>

4. Inventories for resale

	2020	2019
Heating fuel	\$ 161,728	\$ 75,221
Other fuel	49,648	53,608
Gasoline	24,386	26,066
	<u>\$ 235,762</u>	<u>\$ 154,895</u>

Inventories of \$821 were recovered in 2020 to reflect the correction of fuel movements during the annual discharge and dispensing of fuel (2019 - \$699 write-off). Inventories include \$164,994 of fuel products held by a third party and carried at cost (2019 - \$83,558 of fuel products held by a third party and carried at cost).

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

5. Accounts payables and accrued liabilities

	2020	2019
Accrued liabilities	\$ 68,987	\$ 35,357
Fuel and sales taxes payable (receivable)	423	(20)
Accounts payable	994	2,728
	<u>\$ 70,404</u>	<u>\$ 38,065</u>

6. Sale of petroleum products

	2020	2019
Wholesale	\$ 61,788	\$ 56,401
Commercial/Private	57,074	57,749
Territorial Municipalities and Housing Associations	11,405	11,724
Nunavut Housing Corporation	20,428	21,772
Qulliq Energy Corporation	39,116	42,389
Government of Canada	3,545	4,094
Government of Nunavut	9,142	9,480
	<u>\$ 202,498</u>	<u>\$ 203,609</u>

A private contractor in Iqaluit is charged the landed cost of the fuel. The Fund pays or receives the price differential between the approved selling prices set by the Government and a negotiated selling price which would permit the private contractor to earn a fair return on fuel sales.

7. Rent and other revenue (expense)

	2020	2019
Rent and other revenue		
Rent and other income	\$ 1,190	\$ 2,487
Recognition of prior year expense under-accrual	(2,726)	-
Interest income	2	-
	<u>\$ (1,534)</u>	<u>\$ 2,487</u>

Rent includes leasing fees received from private contractors who are leasing fuel storage facilities in Iqaluit. Interest income includes financing charges on accounts receivable and bank interest.

The recognition of prior year expense under-accrual relates to the Fund recognizing the price differential between the approved selling prices set by the Government and a negotiated selling price which would permit a private contractor in Iqaluit to earn a fair return on fuel sales.

8. Tangible capital assets

	2020	2019
Fuel delivery vehicles		
Cost of tangible capital assets	\$ 16,932	\$ 15,122
Opening balance	2,517	1,810
Additions	19,449	16,932
Closing balance		
Accumulated amortization	(14,674)	(13,844)
Opening balance	(1,222)	(830)
Amortization	(15,896)	(14,674)
Closing balance		
	<u>\$ 3,553</u>	<u>\$ 2,258</u>
Net book value		

9. Financing costs

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

Management estimated that the financing costs relating to its working capital advances from the Government were \$1,215 for 2020 (2019 - \$1,184). The financing cost is based upon the average monthly balances due to the Government at a monthly average borrowing rate applicable to the Government. The borrowing rate ranged from 1.05% to 2.23% for the year (2019 - 1.92% to 2.46%). These financing costs are not charged to the Fund by the Government.

10. Related party transactions

The Fund is controlled by the Government of Nunavut and related to Qulliq Energy Corporation and Nunavut Housing Corporation through common control. The Fund enters into transactions with these entities in the normal course of operations. In addition to the significant transactions with related parties disclosed elsewhere in the financial statements the Fund is related in terms of common ownership to all Government created departments, agencies and Crown corporations.

A portion of the total annual sales to Qulliq Energy Corporation are priced at cost; the per-litre cost of fuel and associated freight with no added margin. These are referred to as, "bulk sales" and represent fuel purchased by Qulliq Energy Corporation for generating power throughout the Territory. In 2019-20, bulk sales to Qulliq Energy Corporation totalled 19,637,779 litres at a value of \$16,085 (2019 - 19,597,379 litres at a value of \$17,789). The Fund also incurred expenses totalling \$992 (2019 - \$974) from Qulliq Energy Corporation.

11. Transfer to Government of Nunavut

The Fund operates under the authority of the Revolving Fund Act. Under the Act, the Fund transfers its surplus or deficit to the Government and the funds are recorded in a special account in the CRF called the Petroleum Products Stabilization Fund (Stabilization Fund). At March 31, 2020, the Fund recorded a charge to the Government of Nunavut of \$11,679 (2019 - \$2,224) in the Statement of Operations and Accumulated Surplus pursuant to the Act.

The accumulated surplus or deficit balance in the Stabilization Fund cannot exceed \$10,000. As at March 31, 2020, the Stabilization Fund deficit was \$5,107 (2019 - \$6,572 surplus) and is recorded and maintained by the Government of Nunavut.

12. Commitments and contingencies

a. Fuel supply and transportation contracts

After the 2017 re-supply season, multiple contracts with Woodward's Oil Limited for the supply and transportation of petroleum products expired. Following the RFP procurement process, AV Nunavut Fuels Inc., in partnership with Woodward's Oil Limited, was selected as the successful proponent to provide fuel supply and transportation services throughout Nunavut under a single contract. This new contract has a term of five years, commencing March 1, 2018.

b. Wholesale resupply contracts

Iqaluit

The Government entered into a five-year contract, which expired November 2017, with Uqsuq Corporation ("Uqsuq") where Uqsuq will lease and operate the fuel storage facility in Iqaluit. Under this contract Uqsuq buys fuel from the Government through the Fund at the landed cost and resells fuel products at prices approved by the Government to residents and businesses of Iqaluit. Following Cabinet approval, several extensions with Uqsuq were granted via negotiated contract which expire in November 2020.

c. Community fuel delivery contracts

The Fund provides fuel delivery services in 25 communities in Nunavut. These services are carried out through formal fuel delivery contracts which are awarded by the Government to local individuals or businesses residing in the respective communities. Contracts were awarded for 23 communities on November 1, 2016 and will expire October 31, 2026. During the year the contract for Pangnirtung was amended and has effective dates of December 8, 2019 until October 31, 2026.

Of the remaining two communities, one was awarded for Rankin Inlet on November 1, 2017 and will expire November 30, 2027. The final community; Iqaluit, received a one year contract extension which expires in November, 2020. Under the contracts, private contractors are paid a commission for services rendered on a, "cents per litre" basis.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2020
(in thousands of dollars, unless otherwise stated)

d. Environmental site assessments and remediation costs

In the course of normal operations the Fund may become responsible for certain remediation costs related to its tank farms. The cost of such remediation work is not accrued until either a decision to remediate by the entity occurs or the contamination exceeds current environmental health standards, and the cost and timing of the remediation work can be reasonably estimated.

The Fund's accrued estimated cost of remediation is as follows:

Location	Nature of the Environmental Liability	2019		2020	
		Accrued Liability	Work Completed/ Change in Estimated Accrued Liability	Accrued Liability	
Baker Lake	Fuel spill with the potential contamination of 4,000 M ³ of soil	\$ 866	\$ -	\$ 866	
Resolute Bay	Approximately 100,000 L of gasoline spilled at one of the Fund's fuel storage facilities	\$ 75	\$ -	\$ 75	
		<u>\$ 941</u>	<u>\$ -</u>	<u>\$ 941</u>	

The above liabilities are based on the contractors' quotes for remediation of the respective sites. The amounts are undiscounted and net present value technique has not been used since the Fund expects to do the remediation work in the near future. The above figures do not include any recoveries. If they exist, the Fund expects to collect them via insurance or from the fuel delivery contractors in the respective communities.

In prior years, an Environmental Protection Compliance Order (EPCO) was issued to the Fund for deficiencies in Rankin Inlet. The Fund has not included a liability associated with the EPCO as it relates to assets owned by the Government and hence the Government has taken responsibility for the EPCO through its capital projects.

13. Contingent Assets

The Fund has no contingent assets at March 31, 2020.

14. Contractual Rights

The Fund has no material rights arising from contracts or agreements that will result in both an asset and revenue in the future when the terms of those contracts or agreements are met.

15. Financial risk management

The fund has exposure to the following risks from its use of financial instruments: liquidity risk and credit risk.

a) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty meeting obligations associated with financial liabilities. The Fund's financial assets and liabilities, with the exception of amounts due to the Government of Nunavut are expected to be settled in less than 6 months. The Fund enters into transactions to purchase goods and services on credit. Liquidity risk is measured by reviewing the Fund's future net cash flows for the possibility of a negative cash flow. The Fund manages the liquidity risk resulting from its accounts payable obligations by maintaining sufficient cash resources and available working capital advances from the Government of Nunavut.

b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund's maximum exposure to credit risk is the carrying value of its accounts receivable. A significant amount of the Fund's accounts receivable is due from government entities and, as such, has low credit risk. The Fund manages credit risk through monitoring of the outstanding balances. At March 31, 2020, allowance for doubtful accounts of \$14,686 was recorded.

Nunavut Petroleum Products Revolving Fund
Schedule of Expenses by Type
For the year ended March 31, 2020
(thousands of dollars)

Schedule A

	2020		2019
	Supply & Delivery of Petroleum Products		Supply & Delivery of Petroleum Products
Expense type:			
Cost of goods sold	\$ 180,994	\$	179,790
Commissions	14,214		14,162
Salaries, wages and employee benefits	4,965		5,290
Operations and maintenance	5,630		4,407
Amortization	1,222		830
Bad debt expense	763		43
Contract and consulting services	3,162		2,876
Travel and relocation	1,693		922
Total expense	\$ 212,643	\$	208,320

Independent auditor's report

To the Deputy Minister of Community and Government Services of the Government of Nunavut

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nunavut Petroleum Products Revolving Fund (the Fund) as at March 31, 2021 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at March 31, 2021;
 - the statement of operations and accumulated surplus for the year then ended;
 - the statement of changes in net financial debt for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Edmonton, Alberta
October 8, 2021

Nunavut Petroleum Products Revolving Fund

Financial Statements
March 31, 2021

Nunavut Petroleum Products Revolving Fund
Statement of Financial Position
As at March 31, 2021
(thousands of dollars)

	2021		2020	
FINANCIAL ASSETS				
Cash	\$	-	\$	322
Accounts receivable (Note 3)		58,606		76,912
Inventories for resale (Note 4)		140,550		235,762
TOTAL FINANCIAL ASSETS	\$	199,156	\$	312,996
LIABILITIES				
Bank indebtedness	\$	905	\$	-
Accounts payable and accrued liabilities (Note 5)		24,728		70,404
Employee leave and termination benefits		375		336
Due to the Government of Nunavut (Note 1&11)		176,189		245,809
TOTAL LIABILITIES	\$	202,197	\$	316,549
NET FINANCIAL DEBT	\$	(3,041)	\$	(3,553)
NON-FINANCIAL ASSETS				
Tangible capital assets (Note 8)		3,041		3,553
TOTAL NON-FINANCIAL ASSETS	\$	3,041	\$	3,553
Accumulated surplus - end of the year		-		-

Commitments and contingencies (Note 12)

Approved by: **Management**

Director

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2021
(thousands of dollars)

	Unaudited 2021 Budget		2021 Actual		2020 Actual
Revenues					
Sale of petroleum products (Note 6)	\$ 202,999	\$	184,531	\$	202,498
Rent and other revenue (expense) (Note 7)	-		4,345		(1,534)
Total Revenue	\$ 202,999	\$	188,876	\$	200,964
Expenses					
Supply and delivery of petroleum products (Schedule A)	206,900		196,933		212,643
Deficit for the year	\$ (3,901)	\$	(8,057)	\$	(11,679)
Accumulated surplus - beginning of the year			-		-
Charge to Government of Nunavut (Note 11)		\$	8,057	\$	11,679
Accumulated surplus - end of the year			-		-

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Changes in Net Financial Debt
For the year ended March 31, 2021
(thousands of dollars)

	2021		2020
	Actual		Actual
Deficit for the year	\$ (8,057)	\$	(11,679)
Tangible capital assets			
Additions	(707)		(2,517)
Amortization	1,219		1,222
	<u>\$ 512</u>	<u>\$</u>	<u>(1,295)</u>
Charge to Government of Nunavut (Note 11)	<u>8,057</u>		<u>11,679</u>
Change in net financial debt	512		(1,295)
Net financial debt - beginning of the year	<u>(3,553)</u>		<u>(2,258)</u>
Net financial debt - end of the year	<u>\$ (3,041)</u>	<u>\$</u>	<u>(3,553)</u>

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Statement of Cash Flow
For the year ended March 31, 2021
(thousands of dollars)

	2021	2020
Cash provided by (used for) operations		
Sale of petroleum products	\$ 202,439	\$ 186,133
Rent and other revenue	4,345	(1,535)
Supply and distribution of petroleum products	(145,741)	(259,880)
	<u>61,043</u>	<u>(75,282)</u>
Cash used for capital activities		
Tangible capital asset acquisitions	(707)	(2,517)
Cash used for financing activities		
Net (payments to) borrowings from Government of Nunavut	(61,563)	73,909
Net decrease in cash	(1,227)	(3,890)
Cash - beginning of the year	322	4,212
(Bank Indebtedness) Cash - end of the year	\$ (905)	\$ 322

The accompanying notes and schedules are an integral part of the financial statements.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2021
(in thousands of dollars, unless otherwise stated)

1. Authority and Operations

The Nunavut Petroleum Products Revolving Fund (the "Fund") operates under the authority of the *Financial Administration Act* and regulations and the *Revolving Funds Act* (the "Act"). The Petroleum Products Division of the Department of Community and Government Services of the Government of Nunavut (the "Government") is responsible for the administration of the Fund.

Under the Act, the Fund receives working capital advances from the Government's Consolidated Revenue Fund (the "CRF") to finance inventory, accounts receivable and operating expenses. The Fund's purchases of petroleum products and operating expenses are paid from the CRF and funds received by the Fund are deposited in the CRF. The authorized maximum amount of working capital advances which can be made to the Fund is \$250 million (2019 - \$200 million). At March 31, 2021, the Fund's advance from the Government of Nunavut did not exceed the \$250 million authorized maximum limit.

The prices for the Fund's petroleum products are approved by the Government. It is the expectation of the Government that the Fund's cost of goods sold and operating expenses will be recovered through the price structure to achieve a break-even operation. Under the Act, there is a special account in the Government's CRF called the Petroleum Products Stabilization Fund to which profits of the Fund shall be credited and losses shall be charged.

Budget

Generally accepted accounting principles (GAAP) for public sector in Canada requires a government to present in its financial statements a comparison of the results of operations and changes in net financial assets (debt) for the year with those originally planned.

The Fund did not prepare a budget of changes in net financial assets (debt) for the year and as such it has not been presented in these financial statements. The unaudited budget figures included in the Statement of Operations and Accumulated Surplus are in accordance with page J8 of the approved 2020-21 Main Estimates.

2. Significant Accounting Policies

a. Basis of Accounting

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSAS), as recommended by the Public Sector Accounting Board of Canada.

b. Inventories for resale

Inventories held for resale consist of petroleum products and are valued at the lower of weighted average cost and net realizable value. Inventories which are held with third parties are carried at the lower of cost and net realizable value.

c. Cash

Cash is comprised of the Fund's bank account balance net of outstanding cheques.

d. Non-financial assets

Non-financial assets, including tangible capital assets, are accounted for by the Fund only if they are expected to be used to provide services in future years. These assets would not normally be used to provide financial resources to discharge liabilities of the Fund unless they were sold. Non-financial assets are amortized or charged to expenses in future periods as they are used to provide or support the provision of Fund services.

e. Tangible capital assets

Tangible capital assets are non-financial assets whose useful life exceeds one fiscal year and are intended to be used on an ongoing basis for delivering Fund services. Tangible capital assets with a cost of less than fifty thousand dollars are fully expensed in the year of acquisition. The Fund's tangible capital assets are fuel delivery vehicles which are recorded at cost and amortized on a straight line basis over their estimated useful life of 5 years.

f. Services provided without charge

Tangible capital assets

The Fund does not record the value of certain tangible capital assets used in its operations. The tangible capital assets include fuel storage facilities owned by the Government which are provided without charge to the Fund. The Fund is responsible for any minor maintenance costs related to these tangible capital assets.

Financing costs

The Fund receives working capital advances from the CRF to finance its inventory, accounts receivable and operating expenses. The working capital advances from the CRF are provided without charge to the Fund by the Government.

Environmental remediation costs

The Government has assumed responsibility for funding any environmental remediation costs associated with the Fund's operations that incurred prior to the formation of the Territory of Nunavut in 1999 and for remediation and asset retirement costs associated with Tangible Capital assets owned by the Government.

Other services provided without charge

The Fund does not record the following services provided without charge by the Government: the procurement of goods and services, the processing of payroll, personnel services, and legal counsel.

g. Pension plan

The Fund and its employees, who are deemed to be employees of the Government, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. This multi-employer plan is a defined benefit pension plan for which the Fund and the employees are both required to contribute to the cost of the plan. The general contribution rate multiple effective at year end was 1.01 times for members enrolled prior to January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013 (2020 - 1.01 times for members enrolled before January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013). As the plan is accounted for as a multi-employer plan and actuarial information on the plans surplus/deficit is not readily available, the plan is measured using the defined contribution contributions are charged as an expense on a current year basis and represent the total pension obligation.

The Fund is not required under present plan legislation to make contributions with respect to actuarial deficiencies to the Public Service Superannuation Account.

h. Employee leave and termination benefits

Under the terms and conditions of employment, employees may qualify and earn employment benefits for termination and removal costs based on years of service. The estimated liability for these benefits is based on an actuarial valuation prepared for this purpose and is recorded as the benefits are earned by the employees.

i. Measurement uncertainty

Financial statements prepared in accordance with Canadian public sector accounting standards require management to make estimates and judgments that affect the amounts and disclosures reported in the financial statements. The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts and the provision to reduce inventories to their net realizable value. Actual results may differ from those estimates, although management does not believe that any differences would materially affect the Fund's financial position or reported results of its operations.

The spread of the COVID-19 pandemic continues to cause significant volatility in Canada and international markets. Given the ongoing dynamic nature of the circumstances surrounding COVID-19, the impact of this pandemic on the Fund and its operations remains uncertain.

j. Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events give rise to the revenues. For the sale of petroleum products, revenue is recognized when the product is delivered to the customer and collection is reasonably assured.

Revenue related to services and products received in advance of being earned are deferred and recognized when the services are performed and products delivered.

Recoveries of prior years expenditures, including reversals of prior years expenditure over-accruals, are disclosed in note 7 rent and other revenue. Pursuant to the Financial Administration Act, these recoveries cannot be used to increase the amount appropriated for current year expenditures.

k. Expenses

Expenses are recorded on an accrual basis.

l. Contractual obligations and contingencies

The nature of the Fund's activities requires negotiation of contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual obligations pertain to fuel resupply and delivery agreements with fuel suppliers, wholesale customers and community contractors. Contractual obligations are not accrued until the terms of those contracts or agreements are met.

The contingencies of the Fund 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 and is quantifiable, an estimated liability is accrued. If the likelihood is not determinable or the amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements and no liability is accrued. Contingent liabilities result from among other things, potential environmental contingencies.

m. Financial instruments

Financial instruments include cash, accounts receivable, due to the Government of Nunavut, and accounts payable and accrued liabilities.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2021

(in thousands of dollars, unless otherwise stated)

These financial instruments are measured at amortized cost. Gains and losses are recognized in the Statement of Operations and Accumulated Surplus when these financial instruments are derecognized due to disposal or impairment.

Transaction costs related to the acquisition of these financial instruments are included in the cost of the related instruments.

The fair values of the Fund's cash, accounts receivable, due to the Government of Nunavut and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

n. Adoption of new accounting standards and future changes in accounting standards

A number of new and amended standards issued by PSAB are not yet effective and have not been applied in preparing these financial statements. The following standards for governments will become effective as follows:

PS 1201 - Financial Statement Presentation (effective April 1, 2022), replaces PS 1200 with revised general reporting principles and standards of presentation and disclosure for government financial statements.

PS 2601 - Foreign Currency Translation (effective April 1, 2022), replaces PS 2600 with revised guidance on the recognition, presentation and disclosure of transactions and balances that are denominated in a foreign currency.

PS 3041 - Portfolio Investments (effective April 1, 2022), replaces PS 3040 with revised guidance on accounting for, and presentation and disclosure of, portfolio investments.

PS 3450 - Financial Instruments (effective date deferred from April 1, 2021 to April 1, 2022), a new standard establishing guidance on the recognition, measurements, presentation and disclosure of financial instruments, including derivatives.

PS 3280 - Asset retirement obligations (effective date deferred from April 1, 2021 to April 1, 2022), provides guidance on how to account for and report a liability for retirement of tangible capital assets.

PS 3400 - Revenue (effective date deferred from April 1, 2022 to April 1, 2023), provides guidance on how to account for and report on revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions.

PS 1000 and 1201 – Financial Statement concepts – Purchased intangibles (effective April 1, 2023), Section PS 1000 is amended to allow for recognition of purchased intangibles in financial statements. Sections PS 1201 and 1200 are also amended to remove disclosure requirements for unrecognized purchased intangibles.

PSG 8 – Purchased intangibles (effective April 1, 2023), New guideline explaining scope of the intangibles allowed to be recognized in financial statements given the removal of the recognition prohibition relating to purchased intangibles in Section PS 1000.

The Fund plans to adopt these new and amended standards on their effective dates and is currently assessing the impact they will have on its financial statements.

3. Accounts receivable

	2021	2020
Commercial/Private	\$ 31,957	\$ 40,566
Territorial Municipalities and Housing Associations	5,591	6,442
Nunavut Housing Corporation	12,244	15,664
Qulliq Energy Corporation	16,038	21,712
Government of Nunavut - Community and Government Services Department	5,046	5,595
Government of Canada	1,276	1,619
Fuel and sales taxes receivable	1,284	-
	<u>73,436</u>	<u>91,598</u>
Less: Allowance for doubtful accounts	(14,830)	(14,686)
	<u>\$ 58,606</u>	<u>\$ 76,912</u>

4. Inventories for resale

	2021	2020
Heating fuel	\$ 94,927	\$ 161,728
Other fuel	22,182	49,648
Gasoline	23,441	24,386
	<u>\$ 140,550</u>	<u>\$ 235,762</u>

Inventories of \$398 were written-off in 2021 to reflect the correction of fuel movements during the annual discharge and dispensing of fuel (2020 - \$821 recovery). Inventories include \$63,168 of fuel products held by a third party and carried at cost (2020 - \$164,994 of fuel products held by a third party and carried at cost).

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2021

(in thousands of dollars, unless otherwise stated)

5. Accounts payables and accrued liabilities

	2021	2020
Accrued liabilities	\$ 20,718	\$ 68,987
Fuel and sales taxes payable	-	423
Accounts payable	4,010	994
	<u>\$ 24,728</u>	<u>\$ 38,065</u>

6. Sale of petroleum products

	2021	2020
Wholesale	\$ 63,167	\$ 61,788
Commercial/Private	40,730	57,074
Territorial Municipalities and Housing Associations	11,585	11,405
Nunavut Housing Corporation	19,554	20,428
Qulliq Energy Corporation	37,530	39,116
Government of Canada	3,241	3,545
Government of Nunavut	8,724	9,142
	<u>\$ 184,531</u>	<u>\$ 202,498</u>

A private contractor in Iqaluit is charged the landed cost of the fuel. The Fund pays or receives the price differential between the approved selling prices set by the Government and a negotiated selling price which would permit the private contractor to earn a fair return on fuel sales.

7. Rent and other revenue (expense)

	2021	2020
Rent and other revenue		
Rent and other income	\$ 1,295	\$ 1,190
Recovery from prior year	3,047	(2,726)
Interest income	3	2
	<u>\$ 4,345</u>	<u>\$ (1,534)</u>

Rent includes leasing fees received from private contractors who are leasing fuel storage facilities in Iqaluit. Interest income includes financing charges on accounts receivable and bank interest.

8. Tangible capital assets

	2021	2020
Fuel delivery vehicles		
Cost of tangible capital assets		
Opening balance	\$ 19,449	\$ 16,932
Additions	707	2,517
Closing balance	<u>\$ 20,156</u>	<u>\$ 19,449</u>
Accumulated amortization		
Opening balance	(15,896)	(14,674)
Amortization	(1,219)	(1,222)
Closing balance	<u>\$ (17,115)</u>	<u>\$ (15,896)</u>
Net book value	<u>\$ 3,041</u>	<u>\$ 3,553</u>

9. Financing costs

Management estimated that the financing costs relating to its working capital advances from the Government were \$366 for 2021 (2020 - \$1,215). The financing cost is based upon the average monthly balances due to the Government at a monthly average borrowing rate applicable to the Government. The borrowing rate ranged from 0.53% to 0.69% the year (2020 - 1.05% to 2.23%). These financing costs are not charged to the Fund by the Government.

10. Related party transactions

The Fund is controlled by the Government of Nunavut and related to Qulliq Energy Corporation and Nunavut Housing Corporation through common control. The Fund enters into transactions with these entities in the normal course of operations. In addition to the significant transactions with related parties disclosed elsewhere in the financial statements the Fund is related in terms of common ownership to all Government created departments, agencies and Crown corporations

A portion of the total annual sales to Qulliq Energy Corporation are priced at cost; the per-litre cost of fuel and associated freight with no added margin. These are referred to as, "bulk sales" and represent fuel purchased by Qulliq Energy Corporation for generating power throughout the Territory. In 2020-21, bulk sales to Qulliq Energy Corporation totalled 18,469,668 litres at a value of \$14,615 (2020 - 19,637,779 litres at a value of \$16,085). The Fund also incurred expenses totalling \$1,108 (2020 - \$992) from Qulliq Energy Corporation.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2021
(in thousands of dollars, unless otherwise stated)

11. Transfer to Government of Nunavut

The Fund operates under the authority of the Revolving Fund Act. Under the Act, the Fund transfers its surplus or deficit to the Government and the funds are recorded in a special account in the CRF called the Petroleum Products Stabilization Fund (Stabilization Fund). At March 31, 2021, the Fund recorded a charge to the Government of Nunavut of \$8,057 (2020 - \$11,679) in the Statement of Operations and Accumulated Surplus pursuant to the Act.

The accumulated surplus or deficit balance in the Stabilization Fund cannot exceed \$20,000. As at March 31, 2021, the Stabilization Fund deficit was \$13,164 (2020 - \$5,107) and is recorded and maintained by the Government of Nunavut

12. Commitments and contingencies

a. Fuel supply and transportation contracts

After the 2017 re-supply season, multiple contracts with Woodward's Oil Limited for the supply and transportation of petroleum products expired. Following the RFP procurement process, AV Nunavut Fuels Inc., in partnership with Woodward's Oil Limited, was selected as the successful proponent to provide fuel supply and transportation services throughout Nunavut under a single contract. This new contract has a term of five years, commencing March 1, 2018.

b. Wholesale resupply contracts

Iqaluit

The Government entered into a five-year contract, which expired November 2017, with Uqsuq Corporation ("Uqsuq") where Uqsuq will lease and operate the fuel storage facility in Iqaluit. Under this contract Uqsuq buys fuel from the Government through the Fund at the landed cost and resells fuel products at prices approved by the Government to residents and businesses of Iqaluit. Following Cabinet approval, several extensions with Uqsuq were granted via negotiated contract which expire in November 2031.

c. Community fuel delivery contracts

The Fund provides fuel delivery services in 25 communities in Nunavut. These services are carried out through formal fuel delivery contracts which are awarded by the Government to local individuals or businesses residing in the respective communities. Contracts were awarded for 23 communities on November 1, 2016 and will expire October 31, 2026. In the prior year the contract for Pangnirtung was amended and has effective dates of December 8, 2019 until October 31, 2026.

Of the remaining two communities, one was awarded for Rankin Inlet on November 1, 2017 and will expire November 30, 2027. The final community, Iqaluit, received a one year contract extension which expires in November, 2031. Under the contracts, private contractors are paid a commission for services rendered on a, "cents per litre" basis.

d. Environmental site assessments and remediation costs

In the course of normal operations the Fund may become responsible for certain remediation costs related to its tank farms. The cost of such remediation work is not accrued until either a decision to remediate by the entity occurs or the contamination exceeds current environmental health standards, and the cost and timing of the remediation work can be reasonably estimated.

The Fund's accrued estimated cost of remediation is as follows:

Location	Nature of the Environmental Liability	2020		2021	
		Accrued Liability	Work Completed/ Change in Estimated Accrued Liability	Accrued Liability	Accrued Liability
Baker Lake	Fuel spill with the potential contamination of 4,000 M ³ of soil	\$ 866	\$ -	\$ 866	\$ -
Baker Lake	Gasoline leak	\$ -	\$ 1,005	\$ -	\$ 1,005
Resolute Bay	Approximately 100,000 L of gasoline spilled at one of the Fund's fuel storage facilities	\$ 75	\$ -	\$ 75	\$ -
Umingmaktok	EPCO Emergency Plan Compliance	\$ -	\$ 450	\$ -	\$ 450
		<u>\$ 941</u>	<u>\$ 1,455</u>	<u>\$ 941</u>	<u>\$ 2,396</u>

The above liabilities are based on the contractors' quotes for remediation of the respective sites. The amounts are undiscounted and net present value technique has not been used since the Fund expects to do the remediation work in the near future. The above figures do not include any recoveries. If they exist, the Fund expects to collect them via insurance or from the fuel delivery contractors in the respective communities.

In prior years, an Environmental Protection Compliance Order (EPCO) was issued to the Fund for deficiencies in Rankin Inlet. The Fund has not included a liability associated with the EPCO as it relates to assets owned by the Government and hence the Government has taken responsibility for the EPCO through its capital projects.

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2021
(in thousands of dollars, unless otherwise stated)

13. Contingent Assets

The Fund has no contingent assets at March 31, 2021.

14. Contractual Rights

The Fund has no material rights arising from contracts or agreements that will result in both an asset and revenue in the future when the terms of those contracts or agreements are met.

15. Financial risk management

The fund has exposure to the following risks from its use of financial instruments: liquidity risk and credit risk.

a) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty meeting obligations associated with financial liabilities. The Fund's financial assets and liabilities, with the exception of amounts due to the Government of Nunavut are expected to be settled in less than 6 months. The Fund enters into transactions to purchase goods and services on credit. Liquidity risk is measured by reviewing the Fund's future net cash flows for the possibility of a negative cash flow. The Fund manages the liquidity risk resulting from its accounts payable obligations by maintaining sufficient cash resources and available working capital advances from the Government of Nunavut.

b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund's maximum exposure to credit risk is the carrying value of its accounts receivable. A significant amount of the Fund's accounts receivable is due from government entities and, as such, has low credit risk. The Fund manages credit risk through monitoring of the outstanding balances. At March 31, 2021, allowance for doubtful accounts of \$14,830 was recorded.

Nunavut Petroleum Products Revolving Fund
Schedule of Expenses by Type
For the year ended March 31, 2021
(thousands of dollars)

Schedule A

	2021		2020	
Expense type:	Supply & Delivery of Petroleum Products		Supply & Delivery of Petroleum Products	
Cost of goods sold	\$	165,440	\$	180,994
Commissions		13,790		14,214
Salaries, wages and employee benefits		5,084		4,965
Operations and maintenance		6,687		5,630
Amortization		1,219		1,222
Bad debt expense		144		763
Contract and consulting services		3,620		3,162
Travel and relocation		949		1,693
Total expense	\$	196,933	\$	212,643