Petroleum Products Division

2016 - 2017

Annual Report

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CORPORATE VISION

MANDATE

Created in 1972 by the Government of the Northwest Territories and now operating as a division of the Government of Nunavut's (GN) Department of Community and Government Services, Petroleum Products Division (PPD)'s mandate is:

a) to purchase, transport, deliver, store, distribute and sell refined petroleum products to residents in all communities of Nunavut in a safe, economic, efficient and reliable manner; and

b) to ensure a continuous supply of refined petroleum products adequate to meet the current needs of consumers and the future development of Nunavut.

MISSION

PPD provides safe, reliable and cost-effective supply and delivery of refined fuels necessary for the generation of electricity, heating and transportation sectors, including aviation. PPD acquires, transports, stores and distributes petroleum products to communities all across Nunavut.

PPD is responsible for the supply and transportation of petroleum products in communities while the Financial Management Board (FMB) has the authority to approve the retail price of such products. The program's operating costs are financed through the Petroleum Products Revolving Fund which provides the resources to purchase and distribute the fuel consumed annually in the communities.

The PPD has identified the following priorities for the current, and next four years:

Priorities (2016-17)

- *Continue preparatory work to ensure effective implementation of the Point of Sales System software.*
- *Implement a two-year phased in approach for the new Point of Sales System.*

Priorities (2017-18)

- *Continue implementation, and training of staff and contractors, on the new Point of Sale System.*
- *Begin a review of current credit and collection processes to identify opportunities for improvement.*

Priorities (2018-19)

- *Assess the feasibility of replacing or upgrading back-office accounting, reporting, and billing software.*
- *Conduct an organizational review to realign staff responsibilities with changing workflows due to new technologies.*
- *Develop a strategic plan for addressing maintenance of bulk fuel storage facilities to better respond to and reduce maintenance issues.*

Priorities (2019-20)

- *Conduct an audit of distribution and refueling operations to maintain compliance with changing standards and regulations.*
- *Assess the feasibility of a fuel management and customer identification system using Radio Frequency Identification Technology (RFID).*
- *Initiate the development of a new information management system.*

Priorities (2020-21)

- *Assess opportunities to promote petroleum related trades education within Nunavut in order to build local capacity.*
- *Continue to identify opportunities to improve distribution operations and quality control measures.*
- *Evaluate the information management process and relational workflows to ensure compliance and efficiency.*

MESSAGE FROM THE MINISTER

I am very pleased to present the first Annual Report for the Petroleum Products Division for the period covering April 1st, 2016 until March 31st, 2017.

2016-17 brought with it many accomplishments for PPD. PPD made great headway in the realization of its Business Plan priority to launch the Point of Sale Software System. PPD also carried-out several proactive projects including the removal of 480 drums of fuel in the Kitikmeot region and delivering the first professional Spill Response Training Course for PPD staff and local contractors. Finally, in 2016-17, PPD was able to resolve its deficit and lower fuel prices across Nunavut through the use of early purchases.

I am pleased with PPD's accomplishments in 2016-17, and I look forward to presenting next year's annual report.

Honourable Lorne Kusugak

Minister of the Department of Community and Government Services

Government of Nunavut

MESSAGE FROM THE DEPUTY MINISTER

2016-17 was an important year for PPD. Not only did PPD mange to successfully achieve its priority objectives through the development and roll-out of the Point of Sale system, but it did so while undertaking several additional projects, each of which designed to ensure that Nunavummiut have access to affordable, reliable fuel to meet their energy and transportation needs.

Over and above its Business Plan priorities, PPD made notable improvements to local fuel delivery contracts, adopted a regional uniform pricing structure, and developed several policies and procedures. These accomplishments were achieved while also ensuring a continued commitment to our mandate to oversee the purchase, transportation, storage, sale and delivery of all fuel in Nunavut. PPD's day-to-day operations alone are substantial in scope and scale, which makes the progress realized in 2016-17 all the more impressive.

I am confident that the direction taken by PPD in 2016-17 will only serve to benefit Nunavut;
I look forward to PPD's continued improvement, progress and development in future years.

Ms. Lori Kimball

Deputy Minister

Department of Community and Government Services

Government of Nunavut

MESSAGE FROM THE DIRECTOR

It is fitting that the 2016-17 fiscal year is the subject of PPD's first annual report because several significant initiatives were undertaken by the Division during this timeframe.

Specifically, I am pleased that PPD's fuel procurement practices positioned it to purchase Nunavut's 2016 bulk fuel supply when prices were at historic lows. This in turn allowed PPD to recover its deficit, adjust its retail fuel prices and move to a regionally uniform pricing structure which brought with it, lower fuel prices for the vast majority of Nunavummiut.

I am equally pleased that PPD took important steps towards ensuring that Nunavummiut experience enhanced, reliable fuel delivery service in their respective communities. This was achieved through improvements made to local fuel delivery contracts, which included a move to 10-year term agreements, increased operating hours and saw Cambridge Bay transition its fuel delivery model to the standard model used in 23 other communities.

Finally, in 2016-17, I am happy to report that PPD proposed changes to dramatically reduce its financial exposure through the development of much-needed policies and procedures in support of its Fuel Credit Program. These policies and procedures will help to ensure that PPD has the internal structures needed to limit its risk when extending credit for the purchase of fuel. Because of this, PPD will be in a better position to improve its collection activity than in years past.

The significant, positive initiatives noted above would not have been possible without the time, energy and dedication of a great team. I would like to thank all PPD staff for the great work in 2016-17; I look forward to our work together next year and beyond.

Mr. Nathaniel Hutchinson

Director, Petroleum Products Division

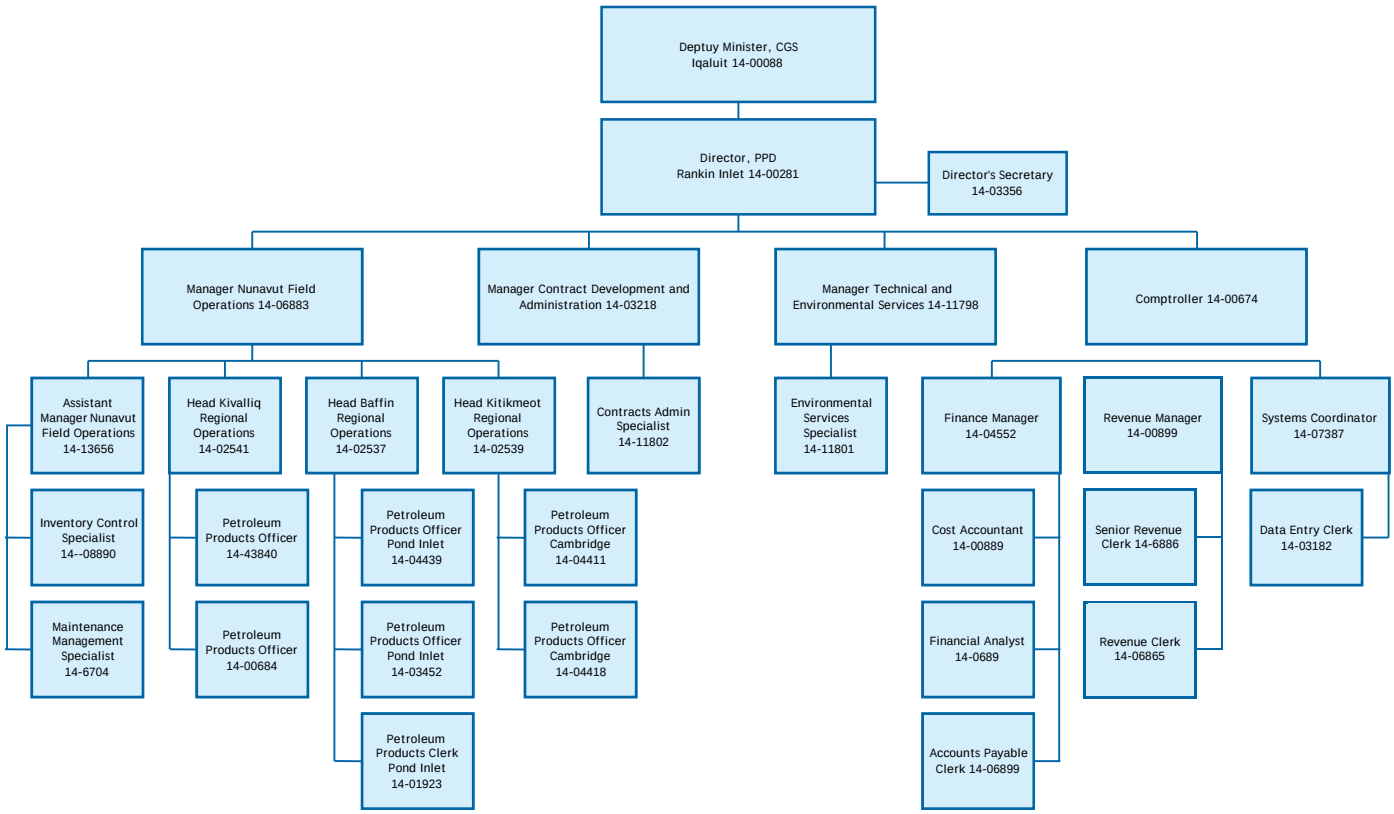
Department of Community and Government Services

Government of Nunavut

CORPORATE OVERVIEW

ORGANIZATIONAL STRUCTURE

PPD is composed of 30 positions (or PYs) located across Nunavut. The head office is based out of Rankin Inlet while regional offices are found in Cambridge Bay, Rankin Inlet and Pond Inlet.



INUIT QAUJIMAJATUQANGIT (IQ) DAY

On May 27, 2016, staff from PPD got the chance to participate in an Inuit Qaujimajatuqangit (IQ) day. PPD staff travelled by ATV (Honda) to Small Meliadine Lake just outside of Rankin Inlet. The day was spent fishing for trout and grayling, hunting geese, learning about traditional Inuit values and enjoying some good food. Better still, the weather was clear and sunny; perfect for being out on the land.

Staff really enjoyed fishing, hunting and learning about traditional Inuit values. PPD will be planning additional IQ days in 2017-18.

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 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. The PPRF 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 GN is required. The PPSF 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

2016-17 saw some fairly significant shifts in PPD's supply chain in terms of fuel delivery contracts, the purchase location of petroleum products and early purchases.

PPD is responsible for the purchase, import and transportation, delivery, storage and sale of petroleum products in Nunavut. PPD 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.*

Annual Bulk Fuel Resupply

PPD purchases Nunavut's petroleum products under two supply and transportation contracts with Woodward's Oil Limited (Woodward's). The Kitikmeot contract runs from 2011 through to the 2015 resupply season and has the option of two one-year extensions both of which have been exercised to 2017. The Eastern Arctic contract runs from 2013 through to the 2017 resupply season and has the option of two one-year extensions which have not been exercised. The Eastern Arctic contract also covers the supply and transportation of fuel for the Kivalliq region.

PPD buys the fuel in the summertime when the vessel is loaded or during the winter months (early purchase), subject to market conditions. Both contracts compensate Woodward's via per-litre freight charges and a pricing mechanism based on the purchase price of the products acquired and sold to PPD.

In 2016-17, 70% of the bulk fuel resupply was purchased via futures contracts (i.e. early purchases). By purchasing fuel in this fashion, PPD was able to generate considerable savings because crude prices at this particular point were trading at 13-year lows. The balance of Nunavut's fuel was purchased at the time of vessel loading during the summer months.

PPD can conduct early purchases subject to the availability of funding in the PPRF. PPD is looking to expand the limits of this fund to provide greater flexibility in the timing of its future fuel purchases.

Fuel Source Location

Fuels are typically sourced 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 is quite variable from one year to the next. In 2016, PPD sourced all of its purchased gasoline from Canadian markets whereas in prior years it was purchased from international markets (e.g. the Bahamas, Finland or the US). In 2016, kerosene based products Jet A1 and diesel were sourced from American markets similar to 2015, whereas they were sourced from Canadian markets in the years prior.

The variability noted above is due to PPD's practice of purchasing high spec gasoline, which may only be readily available from one source location or another. In addition to this, the price of fuel may vary depending on its source location and so, this too can be a determining factor in terms of the location from which PPD's supplier purchases its fuel. PPD always endeavours to purchase the highest spec product at the best possible price.

Fuel Transportation

After being purchased, bulk fuels are transported to Nunavut via Woodward's fleet of four fuel tankers: the Havelstern, Travestern, Sten Fjord and the Nanny. All tankers operating in Nunavut's waters are double-hulled, ice class vessels. These vessels are crewed by Woodward's employees who are responsible for all fuel transportation operations up to the shore manifolds where petroleum products are received by GN-owned pipelines. Operations from the shore manifolds, along the pipelines, and 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 in October. Bulk fuels are purchased as required and permitted by the vessels' sailing schedules during this period.

The 2016-17 fuel resupply largely went as planned with the exception of a fuel spill in Rankin Inlet. On July 13, 2016, the resupply hose on the Sten Fjord tanker was struck by a local boat, releasing approximately 500 litres of fuel into the water. This spill had little impact on the environment as by the next day minimal traces of hydrocarbons were found in the water and on shore. It is believed that any residual gasoline naturally dissipated and evaporated.

In response to the spill with the Sten Fjord in Rankin Inlet, PPD, the GN and Hamlet of Rankin Inlet have taken a number of steps to ensure that a repeat incident does not occur. Steps taken include:

- *advising ships in Rankin Inlet to immediately implement a system of different buoy colours to clearly identify the sunken section of resupply hose deployed so that all persons using small watercraft will be able to easily identify the sunken section of the hose;*
- *advising local boaters of the importance of caution when fuel tankers are in the communities discharging; and*
- *providing a public notice of the buoy colour changes to specifically identify the section through which passage can be safely completed.*

Fuel Sales and Distribution

In all Nunavut communities, with the exception of Iqaluit, petroleum products are distributed by local fuel delivery contractors being compensated on a per-litre commission basis. The tank farms, dispensing units, and fuel delivery trucks remain the property of the PPD, while fuel is sold and delivered within the communities by their respective local fuel contractors.

2016-17 marked the first year in which local fuel delivery contracts moved to a new, standard 10-year contract term. Also in 2016-17, fuel delivery in Cambridge Bay was brought into alignment with other communities in that it was no longer served by the private sector.

KEY ACTIVITIES IN 2016-17

RETAIL PRICE OVERHAUL

In 2016-17, PPD transitioned to a regionally uniform retail pricing structure for petroleum products. This uniform pricing structure was designed to help ensure equitable pricing for all petroleum products sold in Nunavut across each of the three regions and to achieve PPD's legal obligation to be cost neutral as per the Revolving Funds Act. This transition also resulted in lower fuel prices for many Nunavummiut.

Background

Historically, petroleum retail prices in Nunavut were adjusted annually by the FMB. Over time however, the retail prices charged in each specific community did not match the costs of delivering services. This resulted in an inequitable pricing structure whereby PPD did not recover its direct costs in some communities, while in other communities PPD recovered too much.

In addition to this, the retail pricing structure included many different customer classes such as GN and federal government departments. As the lowest priced consumer class within each community is often the GN, the average consumer was paying a disproportionate amount of petroleum costs in the territory.

PPD reviewed its retail pricing structure in an effort to address both of these identified issues.

Forecasted Surplus in 2016-17

At the end of March 31, 2016, the PPSF had accumulated a deficit balance of $7.7 million. However, the fuel delivered to Nunavut in 2016 was purchased at historic lows and blended with existing higher-cost inventories resulting in lower weighted average costs per litre. These historically low prices drove an estimated $10.9 - $20.9 million surplus forecasted by PPD for the 2016-2017 fiscal year. Because the Act requires an accumulated surplus in excess of $10 million to be transferred into the Consolidated Revenue Fund (CRF), this surplus positioned PPD to easily resolve the accumulated deficit of $7.7 million with considerable funds left-over, requiring a transfer into the CRF.

Rather than maintaining the inequitable pricing structure that yielded a considerable surplus and necessitated a transfer into the CRF, PPD decided to consider options for a regionally uniform pricing structure which would also reduce prices for many Nunavummiut.

Reducing Retail Prices and Adopting Uniform Pricing in Fiscal 2016-17

On January 30, 2017, it was decided that the costs of delivering petroleum products and services would be adjusted based on a uniform pricing structure within each of Nunavut's three regions. This decision ensured that petroleum retail prices within each region, and across all products, would be equitable across consumer classes and in each community. Because a uniform pricing structure would also lower prices for many consumers, much of the forecasted surplus for 2016-17 would be redistributed. Doing so also ensured that PPD achieved its mandate to break even by eliminating the $7.7million deficit while not generating a surplus in excess of $10 million.

The below table captures the revised uniform prices by region for each fuel product type.

P50 HEATING

REGION	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.6333	$ 0.0915	$ 0.7248	-	$ 0.1445	0.1000	$ 0.9693	$ 1.0341
KIVALLIQ	0.6333	0.1046	0.7379	-	0.1026	0.1000	0.9405	1.0591
KITIKMEOT	0.6333	0.1575	0.7908	-	0.1281	0.1000	1.0189	1.1302

P50 MOTIVE

Region	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.6333	$ 0.0915	$ 0.7248	0.0158	$ 0.1395	0.1000	$ 0.9802	$ 1.0541
KIVALLIQ	0.6333	0.1046	0.7379	0.0158	0.1013	0.1000	0.9551	1.0940
KITIKMEOT	0.6333	0.1575	0.7908	0.0158	0.1187	0.1000	1.0253	1.1140

P50 AVIATION

Region	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.6333	$ 0.0915	$ 0.7248	0.3396	$ 0.1085	0.1000	$ 1.2730	$ 1.4452
KIVALLIQ	0.6333	0.1046	0.7379	0.3396	0.1436	0.1000	1.3211	1.4812
KITIKMEOT	0.6333	0.1575	0.7908	0.3396	0.1005	0.1000	1.3310	1.6319

P50 NOMINATED

Region	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.6333	$ 0.0915	$ 0.7248	-	$ 0.0708	0.1000	$ 0.8956	$ 0.8816
KIVALLIQ	0.6333	0.1046	0.7379	-	0.0652	0.1000	0.9031	1.0290
KITIKMEOT	0.6333	0.1575	0.7908	-	0.0734	0.1000	0.9642	1.0788

** Blended cost is the average purchase price per litre for 2016 resupply purchases*

~ Rate factor is based on relative price levels to translate historical price levels.

^ Current cash price is calculated as the simple average of prices within the region net of taxes

GASOLINE								
Region	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.6740	$ 0.0915	$ 0.7655	- 0.1000	$ 0.1332	0.1000	$ 0.8987	$ 0.9128
KIVALLIQ	0.6740	0.1046	0.7786	- 0.1000	0.1046	0.1000	0.8832	0.9459
KITIKMEOT	0.6740	0.1575	0.8315	- 0.1000	0.1044	0.1000	0.9359	0.9827

JET A								
Region	Blended cost/L *	Freight/L	Landed cost /L	Factor ~	Weighted average Commission /L	Overhead Allocation	New Retail Price	Current retail price^
QIKIQTAALUK	$ 0.5154	$ 0.0915	$ 0.6069	0.5557	$ 0.1421	0.1000	$ 1.4047	$ 1.7453
KIVALLIQ	0.5154	0.1046	0.6200	0.5557	0.0923	0.1000	1.3681	1.6921
KITIKMEOT	0.5154	0.1575	0.6729	0.5557	0.1198	0.1000	1.4484	1.7740

** Blended cost is the average purchase price per litre for 2016 resupply purchases*

~ Rate factor is based on relative price levels to translate historical price levels.

^ Current cash price is calculated as the simple average of prices within the region net of taxes

REVENUE POLICY CHANGES

In 2016-17, PPD developed a series of fuel credit policies, standard operating procedures and a risk framework to help ensure that it had the internal structure needed to effectively deliver its Fuel Credit Program with reduced financial risk.

The vast majority of fuel sales in Nunavut are only made possible through the extension of credit on the part of PPD to its various customers. This is the case because fuel is often purchased in bulk quantities resulting in rather substantial bills of sale. Credit sales are instrumental in that they provide many customers, such as Qulliq Energy Corporation(QEC), Uqsuq and the Nunavut Housing Corporation NHC, with a period of time in which to generate income for the purpose of making payments on the amounts owed for purchasing fuel. In the 2016-17 year, approximately 90% of all fuel sales were the result of purchases made on credit.

Despite the fact that credit fuel sales are integral to PPD's mandate and operations, historically, it lacked a comprehensive approach to mitigate and manage its financial exposure when extending credit for the purchase of fuel. In recent years, this lead to the accumulation of significant debt related to non-payment on amounts owed. This was not an ideal situation especially because PPD is financially accountable to the FMB and must endeavor to mitigate and manage its risk. The PPD is also required to maintain the balance of the PPRF and this is done by avoiding high receivables (i.e. amounts owed) against this fund. In addition to this, while PPD was permitted to extend credit for the purchase of fuel, there was previously nothing requiring it to do so. In other words, the Fuel Credit Program was never established as an official service program nor was it a policy priority of the GN.

To address the financial exposure discussed above, and to establish its Fuel Credit Program as a policy priority for the GN, PPD decided to develop a series of fuel credit policies. In late 2016-17, PPD worked with a consultant to develop four Fuel Credit Program polices as outlined below:

- *GN PPD Credit Granting Policy (with appended Risk Management Framework);*
- *GN PPD Credit Eligibility Policy;*
- *GN PPD Terms of Payment Policy; and*
- *GN PPD Overdue and Delinquent Accounts Policy.*

Collectively, these policies serve to address many of the PPD's identified policy and risk management needs. This was achieved by including provisions in the policies which deal with identifying the amount of risk associated with various customers and through the implementation of measures and tools (e.g. the use of credit limits, requiring bank guarantees and revoking credit eligibility), aimed at helping PPD limit any additional accumulation of debt from its customer base, including its high-risk customers.

To operationalize and implement the fuel credit policies, PPD also worked with the same consultant to develop a series of five standard operating procedures (SOPs):

- *a Credit Check SOP;*
- *an Account Monitoring SOP;*
- *an Overdue Accounts SOP;*
- *a Delinquent Accounts SOP; and*
- *a Disputed Charges SOP.*

These SOPs helped to ensure that the provisions of PPD's fuel credit policies would be integrated into its internal structures, processes and day-to-day operations.

CAMBRIDGE BAY CONTRACT TURNOVER

During the 2016-17 fiscal year, Cambridge Bay's fuel delivery service contract was brought into alignment with other communities in Nunavut. Starting in 2016-17, Cambridge Bay was no longer served by the private sector as PPD took over responsibility for fuel storage and sales. Fuel delivery is handled by a local contractor, just as it is in other communities.

Pre-2016 Contractual Arrangements

Historically, fuel was stored, sold and delivered by a private company in the community of Cambridge Bay, via an agreement with the GNWT and then with the GN. This situation was at odds with the approach used in most communities in Nunavut, where fuel storage facilities and the distribution of fuel are the GN's responsibility. Because of an identified issue with the fuel storage capacity in Cambridge Bay, PPD hired a contractor to review the existing contractual arrangement with the private company. The independent contractor produced a report in 2010 which determined that proposed contract renewals with the private sector in Cambridge Bay resulted in more expensive fuel than for comparable GN-contracted fuel services in other communities. This same study included several recommendations, including to bring Cambridge Bay's contracting into alignment with the other communities in Nunavut. This study also recommended that PPD build a new storage facility to address the storage capacity issue mentioned above, which was completed in 2015.

New Contracting Model for Cambridge Bay

On October 1, 2016, PPD converted the contracting model from private to GN-contracted, as is used in most other Nunavut communities. The contract has a 10-year term. Since this date, PPD has been responsible for fuel storage, fuel delivery as owner of the fuel delivery tankers in the community, as well as billing of customers. Given this, PPD will no longer be paying private storage fees and will realize significant cost savings on an annual basis as a result.

FUEL DELIVERY SERVICE AGREEMENTS

2016-17 saw the transition to 10-year term fuel delivery contracts in 23 Nunavut communities, effective November 1, 2016.

Historically, fuel delivery contracts in Nunavut were based on a five (5) year term.

2016 saw the turnover of 23 fuel delivery contracts to the new ten (10)-year term agreements (November 1, 2016 – October 31, 2026). Strategic changes to the agreements include:

- *expanded operating hours in many communities; and*
- *5% holdback on commissions payable to improve contractor performance of vehicle maintenance.*

PPD moved to a 10-year term agreement to provide contractors with a longer period to recover the cost of investing in new garaging facilities. In total, 15 garages throughout the territory were either upgraded or constructed by the private sector to accommodate the GN's vehicle fleet.

In 2016-17, all communities, except Rankin Inlet and Iqaluit, had 10-year contracts in place. A new 10-year contract was negotiated in Rankin Inlet the following fiscal year (2017-18) and Iqaluit has a contract in place with a private company (Uqsuq) until 2018.

The table below summarizes all of the Fuel Service Agreements by community.

FUEL SERVICE AGREEMENTS BY COMMUNITY

COMMUNITY	INCUMBENT	CONTRACT WINNER	CONTRACT START	CONTRACT END
Gjoa Haven	Qikiqtaq Co-op	Qikiqtaq Co-op	01-Nov-16	31-Oct-26
Kugluktuk	Kugluktuk Co-op	Kugluktuk Co-op	01-Nov-16	31-Oct-26
Kugaaruk	Koomiut Co-op	Koomiut Co-op	01-Nov-16	31-Oct-26
Taloyoak	Paleajook Co-op	Paleajook Co-op	01-Nov-16	31-Oct-26
Cambridge Bay	Kitnuna Petroleum	Kitnuna Petroleum	01-Nov-16	31-Oct-26
Arviat	Padlei Co-op	Padlei Co-op	01-Nov-16	31-Oct-26
Baker Lake	Sanavik Co-op	Arctic Fuels	15-Oct-16	31-Oct-26
Chesterfield Inlet	Pitsiulak Co-op	Pitsiulak Co-op	01-Nov-16	31-Oct-26
Coral Harbour	Katudgevik Co-op	Sudliq Development	01-Feb-16	31-Oct-26
Rankin Inlet	M&T Enterprises	M&T Enterprises	01-Nov-17	31-Oct-26
Repulse Bay	Naujat Co-op	Naujat Co-op	01-Nov-16	31-Oct-26
Whale Cove	Issatik Co-op	Issatik Co-op	01-Nov-16	31-Oct-26
Sanikiluaq	Mitiq Co-op	Mitiq Co-op	01-Nov-16	31-Oct-26
Arctic Bay	Taqqut Co-op	Taqqut Co-op	01-Nov-16	31-Oct-26
Cape Dorset	West Baffin Co-op	West Baffin Co-op	01-Nov-16	31-Oct-26
Clyde River	Leelie Enterprises	Leelie Enterpirses	01-Nov-16	31-Oct-26
Grise Fiord	Oogliit Sannavik	Siku Services	01-Nov-16	31-Oct-26
Hall Beach	Hall Beach Co-op	Hall Beach Co-op	01-Nov-16	31-Oct-26
Igloolik	Savik Enterprises	Igloolik Co-op	01-Nov-16	31-Oct-26
Kimmirut	Kimik Co-op	Kimik Co-op	01-Nov-16	31-Oct-26
Pangnirtung	Pangnirtung Co-op	J.R. Enterprises	01-Nov-16	31-Oct-26
Pond Inlet	Tununiq Sauniq Co-op	Tununiq Sauniq Co-op	01-Nov-16	31-Oct-26
Qikiqtarjuaq	Leelie Enterprises	Tulugak Co-op	01-Nov-16	31-Oct-26
Resolute Bay	ATCO Structures	ATCO Structures	01-Nov-16	31-Oct-26
Iqaluit	UQSUQ Corporation	TBD	01-Dec-18	TBD

Blue indicates turnover of contract Green indicates early turnover of contract

POINT OF SALE TECHNOLOGY

In order to meet its need for improved data collection and verification, during the 2016-17 fiscal year, PPD rolled out a new Point of Sale solution in all three regions of Nunavut.

Historically, PPD has faced challenges related to the collection, verification and management of its petroleum sales and customer unit data. To address these needs, starting in 2015, PPD worked with a consultant to design, pilot and install a Point of Sale (POS) solution in Nunavut.

POS is an electronic system that enables PPD to capture real-time sales data from the communities each day and collect this data at PPD's central billing office in Rankin Inlet. This system will create efficiencies in customer billing and inventory management and will virtually eliminate the need for manual data entry. As a result, PPD will be able to refocus its regional resources on fuel delivery operations, facility maintenance and contractor training.

To date, PPD has received $1.75M in capital funding to source and install the POS system, this included $250,000 in 2014 to run a pilot project in Rankin Inlet and a further $1.5 million in 2016 for territory-wide roll-out. The new POS solution was first rolled-out in the Kivalliq region in April of 2016, while the Kitikmeot region came online in October of the same year. The communities in the Qikiqtaaluk region were last to receive the POS solution in February of 2017.

By the end of the review year, the POS system had been installed at all petroleum retail selling points in Nunavut, excluding Iqaluit. Going forward, PPD and Informatics Planning and Services (IPS) will be continuing to work with outside consultants to make system and technology improvements for better integration of the POS system with PPD's back-office technology. In 2017-18 and beyond, PPD will be exploring opportunities to modernize its workflows to further increase efficiency. Opportunities being considered include:

- *working with a business analyst, specialized in front-end to back-office sales and data flows, on the development and standardization of fuel delivery, regional office and headquarter office work flows;*
- *the integration of Enterprise Fluid Manger Systems in the headquarter and regional offices for the purpose of generating front-end sales reports;*
- *customizing the Fluid Manager System to meet PPD's need for entry of tank dip information; and*
- *a feasibility study concerning the replacement of PPD's legacy back-office technology, PPD Windows.*

EARLY PRICE SETTING

(FORMERLY REFERRED TO AS "EARLY PURCHASE")

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 today's prices can be 'locked-in' for delivery at a future date.

Early price setting provides PPD with the following benefits:

- *Winter-grade fuel can be sourced during its normal production cycle, i.e. in winter months (December – March) at a significantly lower cost to the supplier. This is especially important for gasoline as the spec is different for a winter-grade fuel versus summer grade.*
- *Prices are typically lower during winter months versus the summer months. In 2016-17, PPD conducted an analysis of 30 years of West Texas Intermediate (WTI) data, which is often considered a world reference price benchmark quoted in the media. This analysis showed that in the long run, petroleum prices are 11% lower during winter production cycles.*
- *PPD is able to recommend retail prices to FMB that reflect known costs for the upcoming fiscal year. This better enables the Division to meet its mandate to break-even and ensure that petroleum prices in Nunavut reflect actual input costs.*

An example of how early purchases benefitted Nunavut in FY 2017

The WTI price of oil averaged US$47.73 a barrel for the GN Fiscal year 2017, 6.1% higher than it was in the prior fiscal year.

WTI – April 1, 2015 – March 31, 2017

In late FY 2016, PPD directed a series of futures contracts that would lock-in the price of petroleum products for the 2017 fiscal year. The following transactions took place between December 2015 and March 2016:

- *December 14, 2015: a purchase of 45,000,000 L Jet A-1*
- *January 12, 2016: a purchase of 21,500,000 L Premium Unleaded Gasoline*
- *February 11, 2016: a purchase of 50,000,000 L Ultra Low Sulphur Diesel*
- *March 8, 2016: a purchase of 40,000,000 L Ultra Low Sulphur Diesel*

As the graph below depicts, these transactions took place during a period in which WTI was reaching its lowest point in 13 years, and at a level significantly lower than the WTI price just four months later.

This fuel would be delivered to the communities during the 2016 resupply season and resulted in significant savings to the Division for its 2017 fiscal year. As a result, PPD was able to lower fuel prices in FY 2017 and generate a significant surplus that would fully recover the Stabilization Fund deficit of $7,691,000.

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 (ULSD), 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 minor fuel product. It is sold in four-litre containers, which makes it labour intensive to distribute and is therefore highly subsidized by other products in order to keep it affordable for Nunavummiut.

Product Standards

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

In 2016, PPD entered into a new 3-year agreement with Intertek Testing Services for its third-party fuel quality control testing service. 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 spec.

The table below captures the specifications for the petroleum products used in Nunavut.

FUEL TYPE CAN/CGSB GOVERNMENT OF NUNAVUT VARIATIONS

AUTOMOTIVE DIESEL	3.517-2007	Low Temperature Operability - Cloud Point -43C Electrical Conductivity - 100pS/m minimum @ 4C Cetane - must meet the engine ASTM D613 engine test
DIESEL	3.517-2015	
AUTOMOTIVE GASOLINE	3.5-2011 AMENDMENT NO. 2	Grade 3, Class D Antiknock Performance - minimum 92 Vapour Pressure - minimum 95kPa Oxygenates - No alcohols, MTBE or other oxygenates allowed
AVIATION FUEL	3.23-2012 AMENDMENT NO. 2	Type - Jet A-1 Electrical Conductivity - minimum 250pS/m minimum @ 4C

PETROLEUM PRODUCTPRICING

Late in the reporting year, PPD made a product price adjustment which led to cost savings for the majority of customers in Nunavut. Because of this adjustment, over the last several years, PPD has closed the gap between the fuel prices found in Nunavut and those found in other Canadian jurisdictions. In 2016-17, PPD was able to offer high spec, winter-grade gasoline for a more competitive price than the regular gasoline found in many other Canadian jurisdictions.

PETROLEUM PRODUCTS PRICE LIST (BEFORE AND AFTER ADJUSTMENT)

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

PETROLEUM PRODUCTSDIVISION
RETAIL PRICE LIST

PRICES EFFECTIVE JANUARY 1, 2016

(all taxes included - cents/litre)

COMMUNITY	P50-HTG	P50-DSL	P50-AVN	GASOLINE	100LL	NAPHTHA	JET A1
BAFFIN							
IGLOOLIK	$ 108.0	$ 123.6	$ 156.4	$ 111.7		$ 195.7	$ 188.9
HALL BEACH	109.0	125.6	157.4	111.7		195.7	188.9
POND INLET	108.0	123.6	156.4	114.7		195.7	187.9
CLYDE RIVER	108.0	123.6	164.4	111.7		195.7	
ARCTIC BAY	109.0	124.6	157.4	114.7		195.7	188.2
KIMMIRUT	108.0	123.6	156.4	113.7		195.7	
CAPE DORSET	108.0	123.6	154.4	113.7		195.7	187.9
PANGNIRTUNG	108.0	123.6	156.4	111.7		195.7	187.9
QIKIQTARJUAQ	103.0	119.6	152.4	113.7		195.7	187.9
KIVALLIQ							
RANKIN INLET	$ 112.0	$ 129.6	$ 160.4	$ 118.7	$ 182.0	$ 195.7	$ 182.9
ARVIAT	112.0	129.6	160.4	118.7	182.0	195.7	
CHESTERFIELD	112.0	128.6	160.4	118.7		195.7	
BAKER LAKE	113.0	130.6	161.4	117.7		195.7	
CORAL HARBOUR	113.0	130.8	161.4	120.4		195.7	182.9
NAUJAAT	111.0	127.6	159.4	113.7		195.7	
WHALE COVE	111.0	129.6	160.4	118.7		195.7	
SANIKILUAQ	106.0	122.6	162.4	105.7		195.7	
KITIKMEOT							
KUGLUKTUK	$ 112.0	$ 130.6	$ 179.4	$ 120.4	$ 190.0	$ 152.7	$ 191.5
BATHURST INLET	116.0	130.8	177.4	120.4		179.7	
GJOA HAVEN	122.0	130.6	170.4	120.4		153.7	191.5
TALOYOAK	122.0	130.6	170.4	120.4		153.7	191.5
KUGAARUK	125.6	130.6	183.4	120.4		172.7	191.5
UMINGMAKTOK	114.0	130.6	175.4	120.4		179.7	
RESOLUTE BAY	114.0	130.6		114.7		195.7	188.2
GRISE FIORD	110.0	126.6	158.4	111.7		195.7	187.9

PETROLEUM PRODUCTS DIVISION
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
BAFFIN							
IGLOOLIK	$ 101.8	$ 116.7	$ 138.9	$ 111.6		$ 800.0	$ 152.7
HALL BEACH	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	152.7
ARCTIC BAY	101.8	116.7	138.9	111.6		800.0	152.7
RESOLUTE BAY	107.0	121.4	145.0	115.5		800.0	157.3
GRISE FIORD	107.0	121.4	145.0	115.5		800.0	157.3
KIMMIRUT	101.8	116.7	138.9	111.6		800.0	152.7
CAPE DORSET	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
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	148.9
CHESTERFIELD INLET	98.8	114.0	144.0	110.0		800.0	148.9
BAKER LAKE	98.8	114.0	144.0	110.0		800.0	148.9
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	148.9
WHALE COVE	98.8	114.0	144.0	110.0		800.0	148.9
SANIKILUAQ	98.8	114.0	144.0	110.0		800.0	148.9
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 COMPARATIVE WITH OTHER CANADIAN JURISDICTIONS

Below is a summary of a 3-year petroleum pricing comparative in Nunavut versus major cities in Southern Canada.

AVERAGE RETAIL PRICE	DIESEL	GASOLINE	HEATING	DIESEL	GASOLINE	HEATING	DIESEL	GASOLINE	HEATING
	2017			2016			2015		
Community	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre	Cents / Litre
VANCOUVER	$ 119.2	$ 152.1	$ 107.7	$ 110.5	$ 135.7	$ 98.0	$ 121.5	$ 139.6	$ 106.6
YELLOWKNIFE	114.2	127.7	100.3	107.1	123.7	90.7	118.1	-	102.3
VICTORIA	113.7	142.6	119.5	104.1	128.8	106.8	113.6	132.1	118.2
WHITEHORSE	113.5	126.9	101.2	107.6	119.9	94.1	125.0	123.0	108.1
MONTREAL	110.2	126.2	94.2	102.2	118.1	85.8	117.3	130.3	99.6
TORONTO	105.6	130.0	115.2	93.0	118.1	99.1	108.0	123.7	111.8
THUNDER BAY		132.0	113.8		122.5	99.6	-	128.8	108.5
QUEBEC	110.8	126.2	92.4	103.0	115.7	80.5	118.0	123.1	97.2
OTTAWA	104.6	126.7	111.8	92.7	114.7	97.6	107.9	120.2	108.7
REGINA	98.9	112.9	95.9	91.0	107.1	87.4	100.3	115.4	97.0
CALGARY	103.0	117.9	-	90.1	108.9	-	100.4	115.7	-
NUNAVUT*	**116.8**	**111.9**	**101.0**	**127.3**	**115.9**	**111.8**	**137.8**	**126.4**	**122.2**
SASKATOON	97.6	113.4	92.4	90.8	107.2	86.9	101.3	115.8	94.7
WINNIPEG	100.6	113.0	94.9	92.5	109.1	87.3	101.4	113.2	97.0
ST. JOHN'S	110.0	115.3	98.6	101.4	105.8	88.8	112.0	111.8	101.4
HALIFAX	102.1	115.7	94.3	93.7	107.0	87.0	105.0	114.2	99.3
EDMONTON	102.0	114.6	-	87.3	103.3	-	96.5	110.2	-
CHARLOTTETOWN AND SUMMERSIDE	111.8	115.8	80.5	102.8	106.5	75.9	114.2	113.6	87.1
SAINT JOHN	119.2	130.9	87.9	108.3	120.1	76.6	116.0	115.7	82.4

NU prices as of March 31, 2017
NU prices for premium unleaded gasoline (min 92 Octane), non-NU prices quoted as regukar unleaded (87 Octane)
NU diesel is #1 ultra low sulphur diesel, non-NU prices is quoted as fuel oil
Statistics Canada. Table 326-0009 - Average retail prices for gasoline and fuel oil, by urban centre, monthly (cents per litre) (accessed: 30 November 2017)

PRODUCT COST BREAKDOWN

Retail fuel prices in Nunavut are comprised of five (5) 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. *GST*
4. *Nunavut excise tax*
5. *Federal excise tax*

Weighted Average (WA) 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)	G = (B + E)	H = (G / F)
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*

Profit Margin or Subsidy

Depending on the mandated retail fuel price in a given community (retail prices being proposed by PPD and approved bythe FMB), 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.

Goods and Services Tax (GST)

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

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:

	PETROLIUM PRODUCTS						
	P50 DIESEL			GASOLINE	AVGAS	NAPHTHA	JET A-1
	HEATING	MOTIVE	AVIATION				
WHITEHORSE	$ –	$ 0.091	$ 0.010	$ 0.064	$ 0.010	$ –	$ 0.010
WHITEHORSE	–	0.040	0.040	0.100	0.110	–	0.040

Variations in WA costs

Due to the manner in which WA costs are arrived at 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		
A	B	C = (B/A)
FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA COST PER LITRE
1,000	$900.00	$ 0.9000

COMMUNITY 2		
A	B	C = (B/A)
FUEL VOLUME BEFORE RECEIPT OF	EXISTING FUEL VALUE	EXISTING WA COST PER LITRE
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:

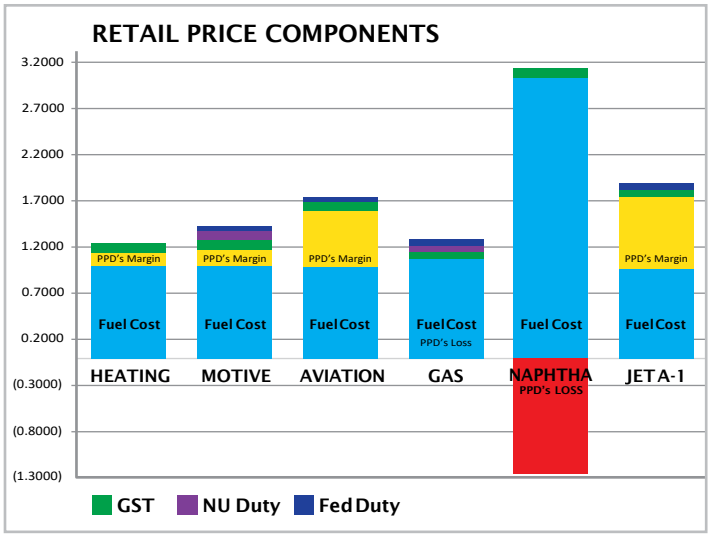
- *emergency fuel airlift costs (used only in exceptional circumstances)*
- *ad hoc vessel anchoring expenses (e.g. bulldozer rental)*
- *inland freight charges (typically only for naphtha and aviation gasoline)*

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.

Fuel Price Components (Nunavut Average)

The table below captures the various components that make-up the retail fuel prices. All products are sold at a profit except fort Naphtha and Gasoline which are subsidized (red coloring).



BULK FUEL FACILITIES

Bulk fuel facilities were upgraded in five (5) communities in 2016-17. Upgrades were carried-out to ensure compliance with environmental regulations.

Nunavut FuelContext

PPD imports approximately $200 million worth or approximately 212,880,000 L of fuel products, via marine vessel, annually. This fuel supports all sources of energy within Nunavut to provide heat and power for all housing, office buildings, health centers, RCMP buildings, and fire halls, as well as transportation for all vehicles including planes and medivacs.

Approximately $180 million in infrastructure is 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 (and the GN) from the Government of Northwest Territories (GNWT) 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.

Bulk Fuel Facilities Upgraded in 2016-17

In 2016, fuel storage facilities were upgraded in the following two (2) communities:

- *Rankin Inlet*
- *Whale Cove*

In 2017, work commenced on fuel storage facility upgrades in the following three (3) communities:

- *Baker Lake*
- *Chesterfield Inlet*
- *Coral Harbour*

Facility Age and Condition

The life expectancy of a new tank is approximately 40-50 years; however, new regulations result in those tanks not meeting code requirements. 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 or not a new tank is required or just 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 650 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 officers complete community inspections semi-annually in order 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. Theses 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 in order 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 punishment, including federal fines and potential imprisonment.

When assessing which tank farms require upgrades, code compliance is always addressed in order 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, 2001*
- *Measurements Canada*
- *National Fire Code of Canada, 2010*
- *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. The majority of 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.

Regulators

PPD corresponds with multiple regulators on a regular basis in order 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 17 years, annual fuel consumption in Nunavut has risen by more than 40% from 148 million litres (1999) to 212 million litres (2016).

PPD completes annual forecasting of community needs in order 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 15-30% more fuel than is forecasted to account for sales volatility and dead space.

Community Capacity Levels

PPD not only needs to be aware of community usage in order 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 is able to 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.*

Facility upgrades are planned years in advance. It can take anywhere from 6-8 years for a project to be completed from the initial planning stages to final construction completion. Capital Planning can take up to 4 years; 1 year with PPD, 1.5 years with CGS Facility Planning, .5 a year with GN Project Management, and 1 year in the design phase with the awarded consultant/contractor. Issues may develop during any one of these steps and can introduce delays, further increasing the amount of time required to successfully complete the upgrade project.

Construction activities take 2-4 years depending on the date of the construction contract award. If the construction contract is awarded in June, the process will take longer as materials may not be acquired for sealift cut-off.

The entire development or upgrade process can be significantly longer if the project is not approved during the GN's initial capital planning stages. There are 5 different parties that need to review and approve the tank farm upgrade before the project is initiated. First, PPD completes the substantiation sheets (sub sheets), which contain information about the project including the community, scope of work, project cost estimates, and critical issues. The sub sheets are then submitted to GN-CGS Community Infrastructure for review. After the review from Community Infrastructure, the sub sheets are given to the CGS Deputy Minister for review and signature. From there the sub sheets go to the Interdepartmental Committee of Capital Planners (ICCP) for another review. ICCP is a committee of individuals that coordinate the management of five-year Capital Plan of GN departments and agencies and ensure that the review process prioritizes the GN's capital investment portfolio.

The FMB completes another review. The FMB is a statutorily-established subcommittee of Cabinet, chaired by the Minister of Finance. They derive their authority from the *Financial Administration Act* and Financial Administration Manual. The Board acts on all matters related to the financial management and financial administration of the government including Capital Planning and Estimates.

Finally, the sub sheet is submitted to be considered and approved by the Legislative Assembly as part of the Annual Capital Estimates.

Edits can occur after any stage of review. This means that the initial sub sheet submitted by PPD could look significantly different before it is considered by the Legislative Assembly. While sub sheets are submitted in December, they are not approved and incorporated into the Annual Capital Estimates until November of the following year.

Tracking Infrastructure Needs

PPD tracks and monitors community facilities on an on-going basis to ensure that sufficient capacity exists and that facilities are code compliant. PPD endeavours 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.

The table below captures PPD's facility Capacity and Code Compliance Upgrade Timeline.

YEAR OF APPLICATION	COMMUNITY	CAPACITY UPGRADE	CODE COMPLIANCE
2015	GJOA HAVEN	YES	YES
	CHESTERFIELD INLET	NO	YES
	CORAL HARBOUR	NO	YES
	BAKER LAKE	NO	YES
2016	ARVIAT		YES
2017	KIMMIRUT	NO	YES
	HALL BEACH	NO	YES
	CLYDE RIVER	NO	YES
2018	NAUJAAT	YES	YES
	ARCTIC BAY	YES	YES
	KUGAARUK	NO	YES
	KUGLUKTUK	NO	YES
	GRISE FIORD	NO	YES
2019	TALOYOAK	YES	YES
	BAKER LAKE	YES	N/A
	POND INLET	NO	YES
	QIKIQTARJUAQ	NO	YES
2020	CAPE DORSET	YES	YES
	RANKIN INLET	YES	N/A
	CAMBRIDGE BAY	YES	N/A

YEAR OF APPLICATION	COMMUNITY	CAPACITY UPGRADE	CODE COMPLIANCE
2021	IQALUIT	YES	YES
2022	POND INLET	YES	N/A
2023	CLYDE RIVER	YES	N/A
2024	SANIKILUAQ	YES	N/A
2025	KUGLUKTUK	YES	N/A
2026	KUGAARUK	YES	N/A
2027	WHALE COVE	YES	N/A
	CHESTERFIELD INLET	YES	N/A
2028	RESOLUTE	YES	N/A
	GRISE FIORD	YES	N/A
2029	HALL BEACH	YES	N/A
2030	CORAL HARBOUR	YES	N/A

**N/A The facility is code compliant and will need to further upgrades for code if regulations do not change within this time. If codes change within this time, they will be incorporated into the capacity upgrade.*

ENVIRONMENT

ENVIRONMENTAL PROTECTION COMPLIANCE ORDERS (EPCOs)

In 2016-17, environmental code compliance issues were addressed in three communities. Code deficiencies remain in 15 communities.

An Environmental Protection Compliance Order (EPCOs) 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 where shown to be in violation of the new code requirements. Because of these violations, PPD was issued 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 2016-17, code deficiencies were addressed in Baker Lake, Coral Harbour and Chesterfield Inlet.

At the end of the review year, code deficiencies were found in 15 communities and two outpost camps. Code deficiencies found in Gjoa Haven have been scheduled to be remedied in 2018 and those found in Arviat, in 2019. PPD was approved for $17.5 million in capital funding to correct code deficiencies in 2015, of which, $3.75 million was used in 2016-17 for this purpose.

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:

PETROLIUM PRODUCTS DIVISION – CODE COMPLIANCE							
QIKIQTANI	2015	2016	2017	2018	2019	2020	2021
IQALUIT	Code Compliant*						Planned Upgrade
IGLOOLIK		Code Compliant					
HALL BEACH				Code Compliance			
POND INLET						Code Compliant*	
CLYDE RIVER				Code Compliance			
ARCTIC BAY					Planned Upgrade		
KIMMIRUT				Code Compliance			
CAPE DORSET						Code Compliance	
PANGNIRTUNG	Code Compliant						
QIKIQTARJUAQ						Code Compliance	
KEEWATIN							
RANKIN INLET		Code Compliant					
ARVIAT				Planned Upgrade			
CHESTERFIELD INLET			Code Compliant				
BAKER LAKE			Code Compliant				
CORAL HARBOUR			Code Compliant				
NAUJAAT						Planned Upgrade	
WHALE COVE		Code Compliant					
SANIKILUAQ		Code Compliant					
KITIKMEOT							
CAMBRIDGE BAY		Code Compliant					
KUGLUKTUK					Code Compliant		
BATHURST INLET				Decommissioning			
GJOA HAVEN T/F				Planned Upgrade			
TALOYOAK							Planned Upgrade
KUGAARUK					Code Compliant		
UMINGMAKTOK				Decommissioning			
GRISE FIORD					Code Compliant		
RESOLUTE BAY	Code Compliant						

** 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 capcity expansion project that has been substantiated*

LANDFARMING

In 2016-17, PPD took control of the management and use of the Rankin Inlet landfarm.

Landfarms are an integral part of PPD's operational activities, designed for storing and remediating materials (e.g., soil, snow, water) that are contaminated by petroleum hydrocarbons, usually caused by fuel spills. Through a combination of aeration, microorganisms and soil conditioning, landfarms effectively remediate contaminated soils.

Landfarms are cost effective compared to the cost of shipping out contaminated material to a credited facility within a southern province. For example, the cost of building the landfarm facility in Rankin Inlet cost $1.5 million; the estimated cost of shipping contaminated materials from Rankin Inlet to southern facilities was more than five times as much – at $8,592,000. Between 2015 and 2017, the landfarm has saved the community approximately $429,600.

In 2016-2017, control of the management and use of the Rankin Inlet landfarm was transferred from GN-CGS to PPD. Located 4 km from the community of Rankin Inlet, the landfarm was originally built in 2004 and is approximately 60 metres x 80 metres in size. The annual cost of the facility is projected to be $50,000.

PPD sees tremendous value in the use of landfarms both for PPD and communities in general. Going forward, PPD would like to be actively involved in the operations and maintenance of landfarms throughout Nunavut. The use of landfarms stands to benefit PPD and Nunavut in terms of protecting the environment and lowering the costs associated with doing so.

FUEL SPILLS

In 2016-17, there were 24 petroleum product spills directly related to PPD's fuel distribution operations. All but one spill has been remediated by the end of the fiscal year.

Of the 160 reported petroleum product spills across Nunavut in 2016-17, 24 spills were directly related to PPD's fuel distribution operations, and of these, 18 spills were small (between 0-250 L). These small spills occurred in 11 communities across all three regions, as follows:

SMALL PETROLEUM PRODUCT SPILLS IN NUNAVUT, 2016-17

BAFFIN COMMUNITIES	KIVALLIQ COMMUNITIES	KITIKMEOT COMMUNITIES
PANGNIRTUNG	RANKIN INLET (4 SPILLS)	TALOYAOAK
IQALUIT (3 SPILLS)	BAKER LAKE	KUGAARUK
SANIKILUAQ (2 SPILLS)	CORAL HARBOUR	
POND INLET		
ARCTIC BAY (2 SPILLS)		
CLYDE RIVER		

Out of the 24 spills in fiscal 2016-17, 2 were due to unknown causes, 9 occurred from a fuel delivery truck, 4 were from pipelines, 8 were from large tanks, and 1 from a spilled fuel drum.

There were 6 spills of larger volume (between 250 – 2,400 L). Larger volume spills occurred in the following communities:

LARGE PETROLEUM PRODUCT SPILLS IN NUNAVUT, 2016-17

BAFFIN COMMUNITIES	KIVALLIQ COMMUNITIES	KITIKMEOT COMMUNITIES
IQALUIT (2 SPILLS)	RANKIN INLET	TALOYAOAK
		KUGAARUK
		GJOA HAVEN

DRUM REMOVAL

In 2016-17, PPD removed 480 fuel drums from communities in the Kitikmeot region.

In 2016, PPD initiated a remedial action plan to remove all fuel drums within tank farm facilities. The project will be completed by region.

In fiscal 2016-17, PPD removed 480 drums from the Kitikmeot region at a total cost of $241,085. Key removals included:

- *72 drums + 1 Quatrex bag in Gjoa Haven;*
- *288 drums + 14 1,000-L totes + 6 Quatrex bags in Taloyoak; and*
- *92 drums + 1 Quatrex bag in Kugaaruk.*

The process of removing fuel drums from these communities consisted of the following activities:

- *drums that were sealed, structurally sound and in good condition were palletted and shipped;*
- *drums that were damaged had their contents decanted into good condition drums, which were then palletted and shipped; and*
- *contaminated debris, garbage and absorbent materials were put in heavy-gauge polyethylene bags covered with woven polypropylene bags approximately 1 cubic metre in volume (called a "Quatrex" bag).*

Nunavut Sealink and Supply Inc. was contracted to remove the palletized/containerized materials (fuel drums, debris, contaminated soil and water) from these communities, while Nunatta Environmental Services completed decanting, palletizing and drum preparation for shipment.

Fuel drums are to be removed from three main Baffin communities (Pond Inlet, Resolute, and Arctic Bay) in fiscal 2017-18, and from Kivalliq communities in fiscal 2018-19. Communities with a small number of drums (less than 10 drums) will be managed in the following years.

SPILL RESPONSE PROFESSIONAL TRAINING FOR LOCAL CONTRACTORS

2016-17 marked the first year in which PPD staff and local contractors received professional training to prevent and respond to fuel spills.

A 3-day fuel spill response training course was delivered to PPD personnel and local contractors in all three regions. This training course focused on preventative and remedial measures, and aimed at reducing environmental and structural damage caused by fuel spills. Topics covered throughout the multi-day training course included the following:

- *initial response;*
- *response techniques;*
- *response equipment and its uses;*
- *safety on site;*
- *factors affecting spill clean-up;*
- *management of contaminated materials;*
- *spill contingency plans;*
- *spill prevention;*
- *heating oil tank inspections;*
- *Nunavut Environmental legislation; and*
- *the roles and responsibilities of polluters and regulatory agencies.*

The training courses were extremely well-received by those who participated. Given this success and the importance of the subject matter, PPD plans to deliver a similar course in each region on an annual basis. Going forward, the course will also be available to members of the public and business community.

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 Technical Services Department, GN Projects Management, 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, was put on hold in 2015 due to various issues and was reinitiated in 2017. PPD aims to have the Standards and Criteria for Above Ground Bulk Fuel Storage and Associated Infrastructure completed in March 2018.

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 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;*
- *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, to name a few.

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 in order 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

OPERATIONS AND ACCUMULATED SURPLUS

In 2016-17, sales revenue dropped, while rent and other revenues rose markedly compared to fiscal 2015-16.

Sales Revenues

Sales of product to Uqsuq Corporation in Iqaluit, to Kitnuna Petroleum Ltd. (KPL) in Cambridge Bay (up until November 30, 2016) and to QEC throughout the rest of the territory, are priced at cost with no markup for either profit or overhead costs. Due to a drop in market fuel prices during fiscal 2016-17, bulk sales revenue to Uqsuq, QEC, and KPL also declined. As a result, there was a drop in overall sales revenue compared to the prior year. It is worth noting however, that given the average annual volume of bulk sales (e.g. 76.1 million litres in 2016-17), this can cause drops in sales revenue as seen between fiscal 2015-16 and 2016-17 without necessarily causing a decrease in net income (e.g. in 2016-17, sales revenue decreased by approximately $23.8 million while net income increased by close to $13.1 million).

Rent and Other Revenues

Rent and other revenues rose markedly in fiscal 2016-17. Several factors were responsible for this increase, including:

- *a $3.3 million recovery from a previous year accounting error; and*
- *$7.8 million was recorded as revenue from Uqsuq stemming from reimbursements for pipeline upgrades and new jet fuel delivery trucks, and also increased differential payments caused by lower bulk fuel prices.* [2]

SCHEDULE OF EXPENSES

In 2016-17, commission expenses rose slightly and bad debt expense rose substantially, while most other expense classes were stable.

Commission Expenses

Commission expenses rose slightly versus the prior year due in part to the new fuel delivery service agreements across the territory, effective October 1, 2016, which saw an overall increase in per-litre commission rates.

Bad Debt Expenses

Bad debt expense rose substantially due to several factors, including:

- *delinquent Accounts Receivables (AR) from Commercial Class customers rose to a combined $1.4 million;*
- *increased AR in Cambridge Bay rose by $1.8 million due to accounting errors from the changeover of its fuel delivery service agreement; and*
- *former fuel delivery contractors with combined delinquent AR of $1 million being included in the Allowance for Doubtful Accounts.*

Other Expense Classes

Generally speaking, other expense classes remained stable with the exception of the cost of goods sold. The cost of goods sold in 2016-17 decreased as a result of lower market fuel prices.

2 PPD and Uqsuq have an agreement in place which stipulates that Uqsuq must operate within a set profit margin. Because of fluctuations in the price of fuel, and in order to maintain this agreed-upon profit margin, differential payments may be needed to, or from Uqsuq. In 2016-17, such differential payments were made from Uqsuq to PPD.

STATEMENT OF FINANCIAL POSITION

The inventory value of petroleum products fell significantly in 2016-17, due to the timing of early purchases of P50 diesel and lower market fuel prices. Accounts Payable declined overall.

PPD may purchase and hold inventory of fuel both within and outside of Nunavut, depending on the timing of the fuel purchase. The inventory value of petroleum products in 2016-17 fell significantly versus fiscal year 2015-16 because of the timing of early purchases for P50 diesel. P50 diesel for 2016-17 was purchased before the 2015-16 fiscal year-end and was held outside of Nunavut, which increased the value of recorded inventories for that year. Given this, the 2016-17 inventory value fell relative to the 2015-16 year because 2015-16 included inventories earmarked for the 2016-17 year. Lower market fuel prices also contributed to the reduced inventory value, but to a lesser degree.

The timing of the P50 diesel purchases for 2016-17 also affected Accounts Payable (AP). For early purchases, 40 – 60 % of the cost is paid at the time of purchase with the balance payable on receipt of the product. Not having made the early purchase of P50 diesel in 2016-17 prevented AP from rising accordingly.

AP declined overall in 2016-17 despite a significant increase in fuel and sales taxes payable, due mainly to incorrectly filed GST returns. Approximately $6.5 million in refunds were over-claimed, and were subsequently remitted back to the Canada Revenue Agency.

AUDIT DELAYS

The audit sign-off for 2016-17 was more than one month later than most recent years. Delays in completing the Inventory Reconciliation Reports, and errors in the Accounts Receivable (AR) Aging Report and GST payable balance, caused the audit delay.

In recent years, audit sign-off has occurred between mid-September to mid-October. However, in 2016-17, it took place on November 15, 2017.

There were four key reasons for the delay in completing the year-end financial statements and associated audit, as follows:

1) Inventory Reconciliations Reports (IRRs) must be completed prior to closing the fiscal year in PPD's sales and inventory management system. The 2016-17 IRRs and Variance Allocation Reports were completed in mid-June 2017, nearly two months later than in the two prior years.

2) An error in the AR Aging Report had to be isolated, corrected, and tested subsequent to fiscal 2016-17 year-end.

3) Inflated GST payable balance. PPD's year-end taxes payable for fiscal 2016-17 was approximately $10,508,000 or more than triple the largest year-end taxes payable during the previous five years. Extensive analysis determined that the fiscal 2016-17 payable balance was generated by incorrectly completed GST returns which over-claimed Input Tax Credits (ITC). Following additional analysis after year-end close, the over-claimed amounts were remitted back to the Canada Revenue Agency.

4) At year-end, PPD must reconcile its revenue, expense, AR, and AP balances with each related party. For the purpose of financial reporting, PPD is considered a related party with the following entities:

- *The Government of Nunavut (GN);*
- *Qulliq Energy Corporation (QEC); and*
- *Nunavut Housing Corporation (NHC).*

Differences in timing and variations in how each related party records a particular expense or revenue item, cost centre reallocations, etc., all affect the overall reconciliation process. The reconciliation process for 2016-17 was no different than previous years in that timing differences for major expense items (e.g. bulk sales from PPD to QEC and post-dip sales with all three entities) required significant effort to resolve between the parties, and introduced delays.

PPD has begun working with other related parties to identify a reconciliation process which introduces as few delays as possible.

PETROLEUM VARIANCES

In 2016-17, PPD experienced a typical, nominal amount of fuel shrinkage.

Over the course any given year, a certain nominal amount of fuel may be lost for a number of reasons including, as a result of evaporation, dip or human error in measurement, theft and facility leakage to name a few. While PPD has numerous internal mechanisms in place to mitigate these potential sources of loss or shrinkage, some minimal loss is often unavoidable, notably where it concerns the impact of evaporation.

During the 2016-17 fiscal year, PPD experienced a loss of 244,067 litres of combined fuel products (i.e. P50 diesel, Jet A-1, gasoline etc.) which represents a value of $168,600.70. The financial impact of this fuel shrinkage amounts to 0.12% of total sales volume and is similar to what was experienced in the previous three years. A submission to the FMB for approval of a write-off in the amount of $168,600.70 was required as a result of this fuel shrinkage.

Below is an account of historical PPD write-offs for fuel shrinkage:

FISCAL YEAR	PETROLIUM (Dollars)	PETROLIUM (Dollars)	PETROLIUM (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%

AUDITED FINANCIAL STATEMENTS

Nunavut Petroleum Products Revolving Fund

Financial Statements
March 31, 2017

November 15, 2017

Independent Auditor's Report

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

We have audited the accompanying financial statements of Nunavut Petroleum Products Revolving Fund, which comprise the statement of financial position as at March 31, 2017 and the statements of operations and accumulated surplus, changes in net financial debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Nunavut Petroleum Products Revolving Fund as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Management Responsibility For Financial Reporting

November 15, 2017

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 generally accepted accounting principles (GAAP) for government organizations recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. When GAAP 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 the 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

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Nunavut Petroleum Products Revolving Fund
Statement of Financial Position
As at March 31, 2017
(thousands of dollars)

		2017		2016
FINANCIAL ASSETS				
Cash	$	5,534	$	1,094
Accounts receivable (Note 3)		67,786		65,329
Inventories for resale (Note 4)		111,423		157,961
TOTAL FINANCIAL ASSETS	$	184,743	$	224,384
LIABILITIES				
Accounts payable and accrued liabilities (Note 5)		31,865		39,790
Employee leave and termination benefits		278		225
Due to the Government of Nunavut (Note 1&11)		154,425		185,495
TOTAL LIABILITIES	$	186,568	$	225,510
NET FINANCIAL DEBT	$	(1,825)	$	(1,126)
NON-FINANCIAL ASSETS				
Tangible capital assets (Note 8 and Schedule A)		1,825		1,123
Prepaid expenses		-		3
TOTAL NON-FINANCIAL ASSETS	$	1,825	$	1,126
Accumulated surplus - end of the year		-		-

Commitments and contingencies (Note 12)

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

[Signed: Ford Widrig] *[Signed: Nathaniel Hutchinson]*

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, 2017
(thousands of dollars)

	Unaudited 2017 Budget	2017 Actual	2016 Actual
Revenues			
Sale of petroleum products (Note 6)	$ 194,859	$ 189,914	$ 213,736
Rent and other revenue (Note 7)	10,646	11,214	3,268
Total Revenue	$ 205,505	$ 201,128	$ 217,004
Expenses			
Supply and delivery of petroleum products (Schedule B)	197,372	185,735	214,695
Surplus for the year	$ 8,133	$ 15,393	$ 2,309
Accumulated surplus - beginning of the year		-	-
Transfer to Government of Nunavut (Note 11)		$ (15,393)	$ (2,309)
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, 2017
(thousands of dollars)

	2017 Actual	2016 Actual
Surplus for the year	$ 15,393	$ 2,309
Tangible capital assets		
Additions	(1,505)	(686)
Amortization	803	1,023
Disposals	-	-
	$ (702)	$ 337
Change in prepaid expenses	3	3
Transfer to Government of Nunavut (Note 11)	(15,393)	(2,309)
Change in net financial debt	(699)	340
Net financial debt - beginning of the year	(1,126)	(1,466)
Net financial debt - end of the year	$ (1,825)	$ (1,126)

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, 2017
(thousands of dollars)

	2017	2016
Cash provided by (used for) operations		
Sale of petroleum products	$ 187,457	$ 223,592
Rent and other revenue	11,214	2,445
Supply and distribution of petroleum products	(146,263)	(165,202)
	52,408	60,835
Cash used for capital activities		
Tangible capital asset acquisitions	(1,505)	(686)
Cash used for financing activities		
Net (payments to) Government of Nunavut	(46,463)	(62,520)
Increase (decrease) in cash	4,440	(2,371)
Cash - beginning of the year	1,094	3,465
Cash - end of the year	$ 5,534	$ 1,094

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, 2017
(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, 2017, 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 2016-2017 Main Estimates.

2. Significant Accounting Policies

a. Basis of Accounting

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector, public sector accounting standards (PSAS), as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA) as required by Section 45 of the Nunavut Act. Accordingly, the Fund utilizes the recommendations of PSAB as the primary basis of its accounting policies.

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 and prepaid expenses, 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 (2016 - 1.15 times for members enrolled before January 1, 2013 and 1.11 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 method. The Fund's 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.

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. 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 2200 - Related Party Disclosures (effective April 1, 2017) defines a related party and identifies disclosures for related parties and related party transactions including key management personnel and close family member.

PS 3210 - Assets (effective April 1, 2017) provides guidance for applying the definition if assets set out in PS 1000, Financial statement concepts, and establishes general disclosure standards for assets.

PS 3320 - Contingent Assets (effective April 1, 2017) defines and establishes disclosure standards for contingent assets.

PS 3380 - Contractual Rights (effective April 1, 2017) defines and establishes disclosure standards on contractual rights.

(in thousands of dollars, unless otherwise stated)

PS 3420 - Inter Entity Transactions (effective April 1, 2017) establishes standards on how to account for and report transactions between public sector entities that compromise a government's reporting entity from both a provider and recipient perspective.

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.

PS 1201 - Financial Statement Presentation (effective April 1, 2019), 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, 2019), 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, 2019), replaces PS 3040 with revised guidance on accounting for, and presentation and disclosure of, portfolio investments.

PS 3450 - Financial Instruments (effective April 1, 2019), a new standard establishing guidance on the recognition, measurements, presentation and disclosure of financial instruments, including derivatives.

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

	2017	2016
Commercial/Private	$ 33,768	$ 23,841
Territorial Municipalities and Housing Associations	5,921	5,160
Nunavut Housing Corporation	8,965	5,997
Qulliq Energy Corporation	23,270	30,692
Government of Nunavut	3,503	1,798
Government of Canada	858	1,222
	76,285	68,710
Less: Allowance for doubtful accounts	(8,499)	(3,381)
	$ 67,786	$ 65,329

4. Inventories for resale

	2017	2016
Heating fuel	$ 41,260	$ 97,525
Other fuel	43,666	35,493
Gasoline	26,497	24,943
	$ 111,423	$ 157,961

Inventories of $169 were written-off to reflect the evaporation and shrinkage that occurs during the annual discharge and dispensing of fuel (2016 - $175 recovered). Inventories include $44,452 of fuel products which are held by a third party (2016 - $92,768) and are carried at cost.

(in thousands of dollars, unless otherwise stated)

5. Accounts payables and accrued liabilities

	2017	2016
Accrued liabilities	$ 1,662	$ 2,637
Fuel and sales taxes payable	10,508	2,009
Accounts payable	19,695	35,144
	$ 31,865	$ 39,790

As explained in note 12e, accrued liabilities in fiscal 2017 included a provision for oil spill costs of $1,336 (2016 - $1,241).

6. Sale of petroleum products

	2017	2016
Wholesale	$ 39,741	$ 63,271
Commercial/Private	68,673	62,530
Territorial Municipalities and Housing Associations	11,615	12,125
Nunavut Housing Corporation	20,665	21,269
Qulliq Energy Corporation	36,200	42,456
Government of Canada	4,035	4,179
Government of Nunavut	8,985	7,906
	$ 189,914	$ 213,736

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. Up until October 1, 2016, a similar relationship existed in Cambridge Bay.

7. Rent and other revenue

	2017	2016
Rent and other income	$ 7,818	$ 2,403
Interest income	85	42
Recovery of prior years expenditures over-accrual	3,311	823
	$ 11,214	$ 3,268

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

			2017	2016
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Fuel delivery vehicles	$ 15,122	$ (13,297)	$ 1,825	$ 1,123

9. Financing costs

Management estimated that the financing costs relating to its working capital advances from the Government were $1,899 for 2017 (2016 - $1,305). 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 0.90% to 1.23% during the year (2016 - 1.04% to 1.26%). 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 and summarized in Schedule C the Fund is related in terms of common ownership to all Government created departments, agencies and Crown corporations.

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, 2017, the Fund recorded a transfer to the Government of Nunavut of $15,393 (2016 - $2,309) 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, 2017, the Stabilization Fund surplus was $7,702 (2016 - deficit of $7,691) and is recorded and maintained by the Government of Nunavut

12. Commitments and contingencies

a. Fuel re-supply contracts

In fiscal 2013 the Government entered into a contract for the supply of petroleum products with Woodward's Oil Limited ("Woodward's") for the Baffin and Kivalliq regions of Nunavut. This contract ended after the 2017 re-supply season.

In fiscal 2011 the Government entered into contract for the supply of petroleum products with Woodward's for the Kitikmeot region of Nunavut for a five year term, ending after the 2015 re-supply season. The contract was renewed for the 2016 and 2017 re-supply seasons.

b. Fuel transportation contracts

The Government entered into a contract for petroleum products transportation with Woodward's for the Baffin and Kivalliq regions; the agreement expired at the end of the 2017 re-supply season. Woodward's was also awarded a fuel transportation contract for the Kitikmeot region of Nunavut in 2011 for a five year term. This contract was subsequently renewed for two additional one year terms.

c. Wholesale resupply contracts

Iqaluit
The Government entered into a five-year contract, which expired in 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.

Cambridge Bay
Prior to October 1, 2016, the Government had a contract with Kitnuna Petroleum Ltd ("KPL") under which KPL bought fuel from the Government and resold it at prices approved by the Government to residents and businesses in Cambridge Bay. Subsequent to October 1, 2016, the fuel distribution contract followed the same structure as those in communities outside of Iqaluit.

d. 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. Of the remaining two communities, one was awarded for Rankin Inlet on November 1, 2016 and will exipre November 30, 2026. The final community; Iqaluit, is expected to receive a new contract after November, 2018. Under the contracts, private

(in thousands of dollars, unless otherwise stated)

contractors are paid a commission for services rendered on a "cents per litre" basis.

e. Environmental site assessments and remediation costs

In the course of normal operations the Fund may become responsible for certain remediation costs related to it's 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:

		2016		2017
Location	**Nature of the Environmental Liability**	**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	$ 375	$ (255)	$ 120
Gjoa Haven	Fuel spill of approximately 2,000 L of Jet A-1 requiring remedial action	$ -	$ 350	$ 350
		$ 1,241	$ 95	$ 1,336

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.

A contractor of the Fund may be found liable for the spill in Resolute Bay and the Fund may recover some or all of the remediation costs which total $3,225 to March 31, 2017. A possible recovery from this contractor has not been recorded in these financial statements as its likeliness is indeterminable at this time.

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. 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.

(in thousands of dollars, unless otherwise stated)

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, 2017, allowance for doubtful accounts of $8,499 was recorded.

Nunavut Petroleum Products Revolving Fund
Schedule of Tangible Capital Assets
As at March 31, 2017
(thousands of dollars)

Schedule A

Fuel Delivery Vehicles		2017 Total	2016 Total
Cost of tangible capital assets			
Opening balance	$	13,617	$ 12,931
Additions		1,505	686
Disposals		-	-
Closing balance	$	15,122	$ 13,617
Accumulated amortization			
Opening balance		(12,494)	(11,471)
Amortization		(803)	(1,023)
Disposals		-	-
Closing balance	$	(13,297)	$ (12,494)
Net book value	$	1,825	$ 1,123

Nunavut Petroleum Products Revolving Fund
Schedule of Expenses by Type
For the year ended March 31, 2017
(thousands of dollars)

Schedule B

	2017	2016
	Supply & Delivery of Petroleum Products	Supply & Delivery of Petroleum Products
Expense type:		
Cost of goods sold	$ 152,832	$ 187,861
Commissions	12,903	11,091
Salaries, wages and employee benefits	4,894	4,419
Operations and maintenance	5,248	4,889
Amortization	803	1,023
Bad debt expense	5,118	1,119
Contract and consulting services	2,867	3,279
Travel and relocation	1,070	1,014
Total expense	$ 185,735	$ 214,695

Nunavut Petroleum Products Revolving Fund
Nunavut Petroleum Products Revolving Fund
Schedule of Related Party Balances
For the year ended March 31, 2017
(thousands of dollars)

Schedule C

Consolidated Financial Reporting Entity	Asset Balances	Liability Balances	Revenue Balances	Expense Balances
Consolidated Revenue Fund				
Office of the Legislative Assembly	-	-	-	-
Departments				
Community and Government Services	$ 3,503	-	$ 8,985	$ 811
Culture and Heritage	-	-	-	-
Economic Development and Transportation	-	-	-	-
Education	-	-	-	-
Environment	-	-	-	-
Executive and Intergovernmental Affairs	-	-	-	-
Family Services	-	-	-	-
Finance	-	-	-	-
Health	-	-	-	-
Justice	-	-	-	-
Territorial Corporations				
Nunavut Arctic College	-	-	-	-
Nunavut Business Credit Corporation	-	-	-	-
Nunavut Development Corporation	-	-	-	-
Nunavut Housing Corporation	8,965	23	20,665	-
Qulliq Energy Corporation	23,270	83	36,200	914
Revolving Funds				
Liquor Revolving Fund	-	-	-	-
Petroleum Products Revolving Fund	-	-	-	-
Other Public Service Bodies				
District Education Authorities	-	-	-	-
Human Rights Tribunal	-	-	-	-
Labour Standards Board	-	-	-	-
Legal Services Board	-	-	-	-
Nunavut Liquor Licensing Board	-	-	-	-
Quilliit Nunavut Status of Women Council	-	-	-	-
Total Related Party Balances	$35,738	$106	$65,850	$1,725

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