



Petroleum Products Division

2017 – 2018
ANNUAL REPORT



PURPOSE, VISION, STRATEGY, VALUES

Our purpose

Supplying petroleum products to meet the energy needs of Nunavut

Our vision

Shaping the future of energy in Nunavut

Our strategy

Safe, reliable, economical, and continuous improvement

Our values

We are guided by Inuit Qaujimajatuqangit and Inuit societal values and, for our operations, place the greatest emphasis on the following three:

- Qanuqtuurniq (being innovative and resourceful)
- Avatittinnik Kamatsiarniq (respect and care for the land, animals and the environment)
- Pijitsirniq (serving and providing for family or community, or both)



2017-18 Highlights



Signed Nunavut's first territory-wide fuel supply and transportation agreement



Changed pricing reference marker from Petro Canada's Montreal Rack and New York Harbour Platts to the New York Mercantile Exchange for all bulk fuel products

Achieved among the lowest fuel prices in Canada for premium gasoline, diesel heating and diesel motive fuels



Continued territory-wide drum removal initiative, removing 646 drums from communities in the Baffin region



Completed code compliance works to bulk fuel facilities in Baker Lake, Chesterfield Inlet and Coral Harbour

Continued implementation of new, community based Point of Sale technologies and the refinement of internal procedures



Drafted new policies, credit application forms, customer credit agreement(s) and standard operating procedures (SOPs) for its revenue section.

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About the Report

This document constitutes the 2017–18 annual report of operations for the Petroleum Products Division of the Department of Community of Government Services, Government of Nunavut and the associated financial statements of the Petroleum Products Revolving Fund. The report covers the period of April 1, 2017 – March 31, 2018.

The report presents the

- Annual Report (pages 6 – 47)
- Consolidated financial statements of the Petroleum Products Revolving Fund (PPRF)

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

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

LIST OF ACRONYMS

API	American Petroleum Institute
CEPA	Canadian Environmental Protection Act
CGS	Community and Government Services
EPCO	Environmental Protection Compliance Order
FMB	Financial Management Board
GN	Government of Nunavut
HFO	Heavy fuel oil
IQ	Inuit Qaujimajatuqangit
NTCL	Northern Transportation Company Limited
NYMEX	New York Mercantile Exchange
POS	Point of Sale
PPD	Petroleum Products Division
PPRF	Petroleum Products Revolving Fund
PwC	PricewaterhouseCoopers
QEC	Qulliq Energy Corporation
SOP	Standing Operating Procedure
USCG	US cents per gallon
WA	Weighted Average
WTI	West Texas Intermediate



Letter of Transmittal

(from Minister)

The Honourable Nellie Kusugak
Commissioner of Nunavut

Dear Madam,

As Minister responsible for the Department of Community and Government Services, I have the honour of presenting the second Annual Report for the Petroleum Products Division, for the period covering April 1st, 2017 until March 31st, 2018.

Respectfully submitted,

Honourable Lorne Kusugak
Minister of Community and Government Services

Message from Deputy Minister

I am pleased to present the Petroleum Products Division's (PPD) 2017-18 Annual Report, highlighting some of the PPD's progress over the year. PPD is committed to the safe, reliable and equitable distribution of fuel across Nunavut, and its achievements over the past year speak to these commitments.

This past year has once again been an exciting one, and one in which PPD modernized a significant component of its operations in the implementation of its point of sale system. PPD also took steps to improve its credit application and collection processes by continuing with the development of credit policies and procedures, updated credit application forms and client credit agreements. I am confident that these developments will go a long way in ensuring that PPD provides high quality, timely service to its clients, while managing its credit exposure.

I am also thrilled to report that PPD has made further strides in its endeavour to upgrade existing tank farms in Nunavut. This past year, fuel storage facilities were upgraded in Baker Lake, Chesterfield Inlet and Coral Harbour and upgrades were commenced in a further four communities. These upgrades are of critical importance to ensure that our facilities are safe and environmentally sound, while also ensuring that communities have access to the volume of fuel they need. I am also proud of PPD's efforts with its drum removal initiative; PPD was able to remove a further 646 old oil drums from Nunavut communities this past year.

I would like to commend the PPD staff on their work this past year. I look forward to 2018-19 and the opportunity to make additional progress which benefits Nunavummiut.

Sincerely,

Constance Hourie
Deputy Minister,
Department of Community and Government Services

Director's Message

It is with great pride that I present the 2017–18 PPD Annual Report. This past year has been one of hard work and dedication and progress for PPD. I'd like to start by thanking the entire PPD team for the commitment and work ethic; PPD's success would not be possible without your contributions.

PPD strives to provide Nunavummiut with safe, reliable and equitable distribution of fuel all across the territory. PPD also endeavours to provide fuel products at the most affordable prices possible, and because of the efforts of PPD staff prior to, and throughout the 2017–18 year, I am happy to report that we were once again able to ensure that fuel prices stay competitively low in Nunavut.

Specifically, I'd like to mention that PPD has negotiated a new 5-year Territory-wide fuel supply and transportation agreement with AV Nunavut Fuels in partnership with Woodward's Group of Companies. This new agreement is expected to lower PPD's costs for fuel products, while reducing its risks and increasing education, training and employment opportunities for Inuit within the communities. This agreement will also see an upgrade to the fleet of vessels used to transport fuel into the territory, as three modern ice-class tankers will now be used to bring fuel into Nunavut.

While these successes are noteworthy, the infrastructure and regulatory reporting requirements that lie ahead pose challenges to PPD. The energy industry is one of the most highly regulated in Canada, and new and evolving standards will require that PPD adapt in order to ensure that it has the resources in place to meet these challenges.

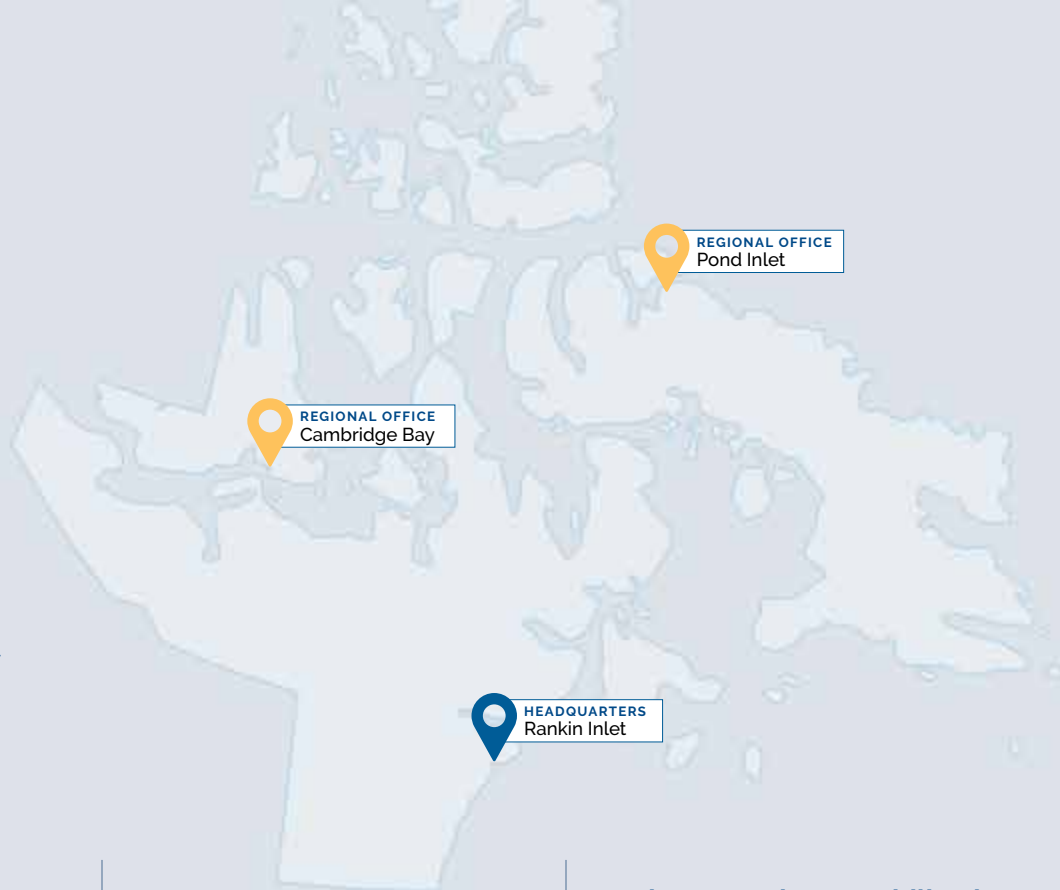
2017–18 was a productive year and I look forward to working with the PPD team in 2018–19. I know even greater progress will be made.

Sincerely,

Nathaniel Hutchinson
Director
Petroleum Products Division



PPD AT A GLANCE



2017–18 sales revenue \$197,198,000	Annual surplus (profit) \$1,094,000	Petroleum products stabilization fund balance \$8,796,000 <i>(Maximum \$10 Million)</i>
Headquarters Rankin Inlet	Regional offices Pond Inlet, Rankin Inlet & Cambridge Bay	
Full-time employees 30	Outsourced individuals employed in PPD field operations Approximately 225	
2017 fuel imports 210,248,774 litres	<div> <div></div> Premium gasoline 21,745,381 litres imported </div> <div> <div></div> Ultra-low sulphur diesel 141,644,055 litres imported </div> <div> <div></div> Jet A-1 46,543,978 litres imported </div> <div> <div></div> Naphtha 237,460 litres imported </div> <div> <div></div> Aviation gasoline 77,900 litres imported </div>	
2017–18 sales 210,044,582 litres		
Sales growth 1.71% <i>Compounded annual growth over 10-year period</i>	Total fuel storage capacity in Nunavut's 25 communities 294,767,880 litres	Average West Texas Intermediate crude oil price for 2017–18 \$53.57 per barrel <i>Up 11.88% over prior year (2016–17 \$47.88 per barrel)</i>

Nunavut’s Energy Landscape

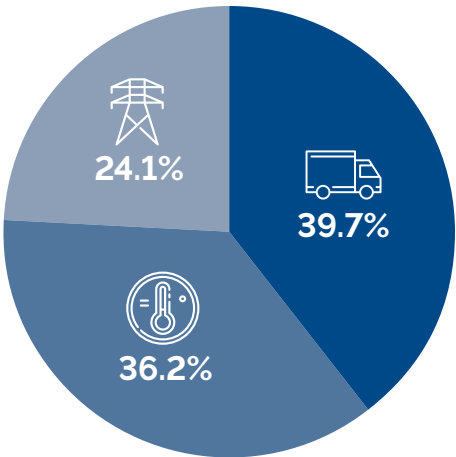
Nunavut’s communities consume approximately 200–210 million litres of petroleum products per year, representing 0.19% of Canada’s total consumption of 108 billion litres. Nunavut residents consume almost 79% more petroleum, per capita, compared to the national average. This is due to the long travel distances for the movement of people and goods; extreme cold temperatures; requirement of prolonged lighting during winter months; and complete reliance on petroleum for the generation of electricity.

Nunavut’s petroleum consumption by industry and share of total in 2017–18:

Transportation	78.4 million litres per year	39.7%
Heating	71.5 million litres per year	36.2%
Electricity	47.7 million litres per year	24.1%

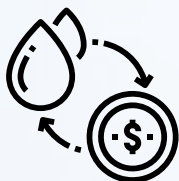
**Statistics do not include fuel sold to, or imported by, private mining companies or any propulsion fuels used by shipping companies not purchased from PPD.*

This fuel supports all sources of energy within Nunavut to provide heat and power for all housing, office buildings, health centres, RCMP buildings, and fire halls, as well as transportation for all vehicles including planes and medevacs.

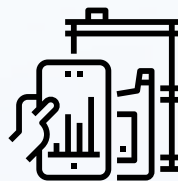


Corporate Overview

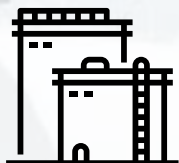
KEY RESPONSIBILITIES



To purchase, import and sell refined petroleum products in accordance with applicable financial regulations and strategic/operational plans and arrange for storage and delivery in a manner that will meet the evolving needs of developing Nunavut communities.



To award, manage and train outsourced service providers responsible for the transportation, distribution and supply of refined petroleum products ensuring contractual obligations are met in the right way, at the right time and at the right place.



To operate, maintain, inspect and direct the development of Nunavut's fuel storage and distribution infrastructure in accordance with emerging community requirements, rigorous maintenance schedules, evolving regulatory compliance requirements and in response to operational requirements of an Arctic jurisdiction.



To respond judiciously to environmental hazards or spills in accordance with regulations; manage land farms to store and remediate materials that are contaminated by petroleum hydrocarbons; and train contractors on environmental safety, protection and sustainability.

Business Priorities

PPD's business priorities are published in the Government of Nunavut & Territorial Corporations Business Plan for 2017–2020, and are as follows:

2017–18



Continue implementation, and training of staff and contractors, on the new Point of Sale System.

Status

The Point of Sale System is fully implemented at all petroleum retail selling points in Nunavut communities (excluding Iqaluit).

2017–18



Begin a review of current credit and collection processes to identify opportunities for improvement.

Status

PPD has drafted new policies, credit application forms, customer credit agreement(s) and standard operating procedures (SOPs) for its revenue section. The policy documents are pending approval.

2018–19



Assess the feasibility of replacing or upgrading back-office accounting, reporting, and billing software.

2018–19



Conduct an organizational review to realign staff responsibilities with changing workflows due to new technologies.

2018–19



Develop a strategic plan for addressing maintenance of bulk fuel storage facilities to better respond to and reduce maintenance issues.

2020-21



Assess opportunities to promote petroleum related trades education within Nunavut in order to build local capacity.

2020-21



Evaluate the information management process and relational workflows to ensure compliance and efficiency.

2020-21



Continue to identify opportunities to improve distribution operations and quality control measures.

2019-20



Assess the feasibility of a fuel management and customer identification system using Radio Frequency Identification Technology.

2019-20



Initiate the development of a new information management system.

2019-20



Conduct an audit of distribution and refueling operations to maintain compliance with changing standards and regulations.

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 like 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.



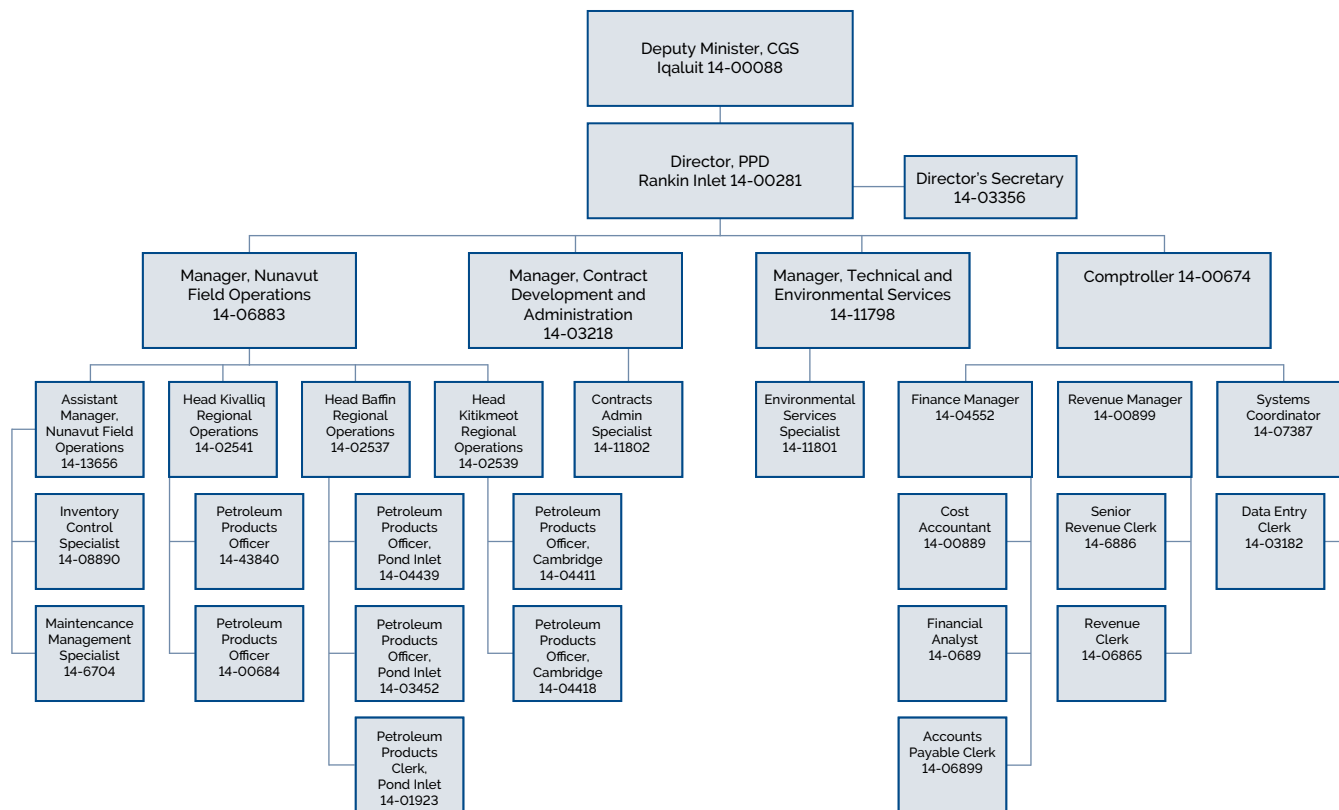
STABILIZATION FUND

The Act requires the PPRF to operate on a “break-even” basis. However, fluctuations in the market price of petroleum results in annual profits and losses for PPD. The Petroleum Products Stabilization Fund was therefore established so that fuel prices do not have to be revised each year to accommodate these variances. The limit

of the Petroleum Products Stabilization Fund is +/- \$10 million, after which a supplementary appropriation from the GN is required. The Petroleum Products Stabilization Fund accumulates the profits and losses of the PPRF and is similar to the retained earnings account recorded in the financial statements of a private sector company.

ORGANIZATIONAL STRUCTURE

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



INUIT QAUJIMAJATUQANGIT (IQ) DAY

In May of 2017, PPD organized an Inuit Qaujimajatuqangit (IQ) day with the Department of Finance. Staff from PPD and Finance travelled by snowmobile and all-terrain vehicle to Napu, a lake 15 miles south of Rankin Inlet. The day was spent fishing, learning about Inuit traditional values, Inuit games, hunting/fishing methods and partaking in some good food.

Timing for this IQ day could not have been better as PPD was able to take advantage of regional staff being in Rankin Inlet for annual Pre Re-Supply meetings. PPD is thrilled that many staff were able to participate and benefit from the day's events.

The day was made possible thanks to the knowledge, skills and expertise of three of Rankin Inlet's Elders, who shared their expertise in traditional Inuit knowledge.

PPD staff enjoyed learning about traditional Inuit games, fishing methods and listening to stories from all 3 elders. PPD will be planning additional IQ days in 2018-19.

Petroleum Supply Chain

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

In March 2018, PPD and Community and Government Services (CGS) awarded a new 5-year fuel supply and transportation agreement to AV Nunavut Fuels, an Inuit Owned Company backed by The Woodward Group of Companies. This marks the first time that supply and transportation were combined under a single Nunavut-wide agreement. The benefits of this agreement include greater economies of scale and uniform transportation costs for the entire Territory.

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

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

1. Early Price Setting
2. Deferred Price Setting
3. Load Port Pricing

Purchase Method #1: Early Price Setting

PPD may choose to secure fuel prices early in the year, between the months of January and April. This method is called Early Price Setting (previously referred to as "early purchase") and is conducted either through futures contracts or by taking physical delivery of the product and storing it in Southern tankage in advance of resupply.

PPD can conduct early purchases subject to the availability of funding in the PPRF.

Purchase Method #2: Deferred Price Setting

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

Where a typical voyage from the load port to the contractor's storage facilities takes an average of two to three weeks, PPD has the option to lock in the price at any day during this 2- to 3-week voyage using one or multiple days up to the point of discharge from the tanker or the expiry of the applicable NYMEX futures contract, whichever comes first. The applicable price will be the end of day settlement price for the applicable NYMEX futures contract.

Purchase Method #3: Load Port Pricing

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

Fuel Source Location

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

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

This variability in source location is due to PPD's practice of purchasing high spec gasoline, which may only be readily

available from one source location or another. The price of fuel may vary depending on its source location: this is another factor used in determining the fuel purchase location. PPD always endeavors to purchase the highest spec product at the best possible price.

Product is tested at three points in the process: (1) at the load port by a third party quality/quantity surveyor; (2) before it is offloaded to Nunavut tanks; and (3) when the product is in the tank, at which time PPD's quality contractor sends samples to a lab to perform analysis.

Fuel Transportation

The 2017 resupply season was conducted under the two former supply and transportation agreements with Woodward Group of Companies: the Eastern Arctic and the Kitikmeot supply agreements. The four vessels delivering fuel were the Havelstern, Travestern, Sten Fjord and the Nanny. All tankers operating on behalf of PPD in Nunavut's waters are double-hulled, ice class vessels, which reduces the likelihood of marine pollution following an incident that damages a ship's hull, and are crewed by Woodward's employees.

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

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

The 2017-18 fuel resupply largely went as planned with no major incidents to report for the season. The first community to receive its resupply in 2017 was Whale Cove on July 5th, followed by Rankin Inlet. The resupply season lasted 4 months and was completed on November 11th with Iqaluit receiving the last of its deliveries for the year.

In March 2018, PPD awarded a new 5-year supply and transportation that will see a modernization of Woodward's fleet of tankers with four newly acquired ice-class tankers. The vessel Particulars are as follows:

SHIP NAME	FLAG	YEAR OF BUILD	CAPACITY
Qikiqtaaluk W.	Canada	2011	21,680 Cubic Meters
Kitikmeot W.	Canada	2010	21,680 Cubic Meters
Kivalliq W.	Canada	2004	16,080 Cubic Meters
Tuvaq W.	Canada	2012	8,554 Cubic Meters

The vessels were purpose built for Arctic conditions and feature:

- All fully double-hulled Ice Class vessels;
- Heated enclosed cargo dumping arrangement for operations in temperatures down to -40 Celsius;
- Main engine power for continuous operation in fast ice up to .5 meters thick unassisted;
- Modern navigational and communication equipment; and,
- Specialized towing arrangements to facilitate ice breaker towing assistance through multiyear solid ice conditions.
- Modern electronic pumping and gauging system for enhanced safety during petroleum transfer operations

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 suggested local fuel contractors.

The prior year (2016-17) marked the first year in which local fuel delivery contracts moved to a new, standard 10-year contract term. In that year, fuel delivery in Cambridge Bay was brought into alignment with other communities in that a new bulk fuel facility was completed and products are no longer dispensed from the old facility owned by the private sector. Rankin Inlet's fuel delivery contract was awarded in 2017-18 after a 1-year delay to allow time for a contracting strategy assessment.





Key Activities in 2017–18

REVENUE POLICY CHANGES

In 2016–17 and 2017–18, 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, 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, the division lacked a comprehensive approach to mitigate and manage its financial exposure when extending credit for the purchase of fuel. In recent years, this led to the accumulation of significant debt related to non-payment on amounts owed. Accumulation of debt became an issue because PPD is financially accountable to the GN's Financial Management Board (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, while PPD was permitted to extend credit for the purchase of fuel, it was not required to do so. The extension of fuel credit was neither 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 policies 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.

POINT OF SALE TECHNOLOGY

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.

During the 2016–17 fiscal year, PPD rolled out a new Point of Sale solution in all three regions of Nunavut. 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.

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.

By the end of fiscal 2016-2017, the POS system had been installed at all petroleum retail selling points in Nunavut, excluding Iqaluit (POS is not intended for use in Iqaluit at this time). Going forward, PPD and the CGS' Informatics Planning and Services, will continue 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 (status: completed in 2017-2018);
- the integration of Enterprise Fluid Manager Systems in the headquarter and regional offices for the purpose of generating front-end sales reports (status: ongoing);
- customizing the Fluid Manager System to meet PPD's need for entry of tank dip information (status: ongoing); and,
- a feasibility study concerning the replacement of PPD's legacy back-office technology, PPD Windows (status: no progress in 2017-2018).

FUEL SUPPLY AND TRANSPORTATION AGREEMENT

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

1. Change in petroleum pricing reference marker

The former supply and transportation agreements (Eastern Arctic and Kitikmeot) referenced Petro Canada's Montreal Rack as the pricing medium for diesel and gasoline, and Platts New York Harbour for Jet A-1. PPD sought to avoid regional indices such as Edmonton or Montreal rack. The issue is that regional rack prices may be impacted by events or happenings that have nothing to do with world fuel

prices. For example, a regional rack price could get inflated by a local disaster impacting supply and temporarily driving up prices in a local region.

In addition, regional indices can be permanently driven up by a supplier's cost of meeting pollution regulations specific to their province or state, thereby inflating the regional rack price. Also, some provinces may choose a mechanism that imposes additional costs on local refineries and/or fuel distributors: these stakeholders would then in turn pass on their increased costs to consumers by adding these additional costs to their local truck "rack prices".

The above situations are not a problem for local consumers, but it is for users of the reference price outside of that region. For example, New York Harbour Platt's publication for September 8th, 2017, Jet A1 includes 11.7 US cents per gallon related mostly to pollution related credits. This add-on is USA specific. This fee artificially inflates gas prices in some Canadian provinces that use NY Harbour Platt's to regulate their fuel prices. However, when the product is actually shipped from the USA to a foreign country, the fee is not relevant.

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

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

27 Sept. 2017

MONTREAL RACK		LITRES IN CDN \$
Montreal Rack #1 ULSD (Ultra Low Sulphur Diesel)		0.7490
Montreal Rack PUG (Premium Unleaded Gasoline)		0.7650
Platts FOB Barge (New York Harbour) Jet A-1		0.5862

NYMEX		LITRES IN CDN \$
NYMEX NY Harbour ULSD Futures		0.6079
NYMEX RBOB Gasoline Futures		0.5454
Platts FOB Barge (New York Harbour) Jet A-1		0.6079

While it was expected that moving to a lower pricing medium would yield higher supplier markup to achieve a similar level of operating margin, the reduction in risk mentioned above appears to have generated significant savings to PPD, as the supplier markup did not materially increase under the new agreement. PPD further reduced the risks carried by both the GN and the contractor by removing the currency exchange risk and doing business in US funds, which are then converted to Canadian funds using the Published Bank of Canada Noon Day Exchange Rates. This further allowed the contractor to reduce margins which typically is higher due to the currency exchange risk they carry.

PPD will assess the level of savings after the 2018 resupply and report on it in the 2018-19 annual report.

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

To add context to this change, it is relevant to summarize the history of fuel supply and transportation in Nunavut:

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

The move was intended to improve quality control over the GN's fuel; however, it led to significant quality control issues as it became difficult to hold a single party accountable for product that was off-specification. As a result, in 2007, the GN re-combined the supply and transportation components

under one contract. Woodward's Oil became exclusive supplier and transporter of fuel to the Eastern Arctic and NTCL became the exclusive supplier and transporter of fuel to the Western Arctic. However, this agreement was subsequently awarded to Woodward's Oil in June 2010 for 5 years plus 2 one-year extension options. In 2012, the GN re-awarded the Eastern Arctic agreement to Woodward's Oil via a competitive RFP process for 5 years plus 2 one-year extension options.

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

3. Inuit Employment

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

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

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

As the ban on HFO is likely to take effect within the contract term of PPD's supply and transportation agreement, PPD added a pricing clause within the contract to quantify the impact of the ban on fuel prices in Nunavut and to remove the financial risk to both PPD and its supplier.

Early Price Setting

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

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

- Winter-grade fuel can be sourced during its normal production cycle, i.e., in winter months (December – March) if physical possession of the product is taken by PPD's supplier;
- Prices are typically lower during winter months versus the summer months. An analysis of 30 years data shows that petroleum prices are on average 11% lower during winter months (December – March) versus summer (June – September); and,
- PPD is able to recommend retail prices to the Financial Management Board that reflects 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.

In 2017–18, the average West Texas Intermediate price of oil was US\$53.57 a barrel, 11.9% higher than it was in the prior fiscal year. As the graph below depicts, there is significant volatility in crude oil prices, both seasonally and on a year-over-year basis. This volatility can be mitigated using futures contracts "early price setting", because it enables PPD to hedge against price spikes that may occur in the summer months by purchasing a portion of its volumes leading up to resupply.

WTI – April 1, 2016 – March 31, 2018



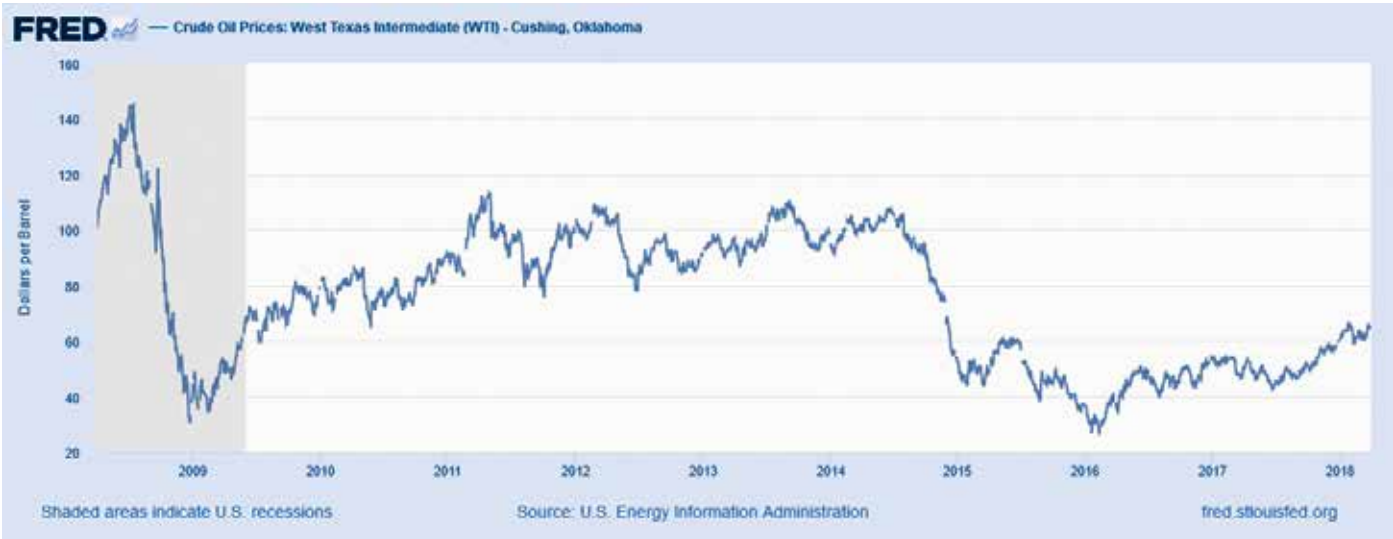
In late 2016–17, PPD directed a series of futures contracts that would lock-in the price of petroleum products for the 2017–18 fiscal year.

PPD did not conduct early price setting for its diesel products (approximately 145,000,000 litres) for 2017–18. Instead, diesel was purchased during the normal loading season beginning in May.

General Comments on Oil Price Volatility

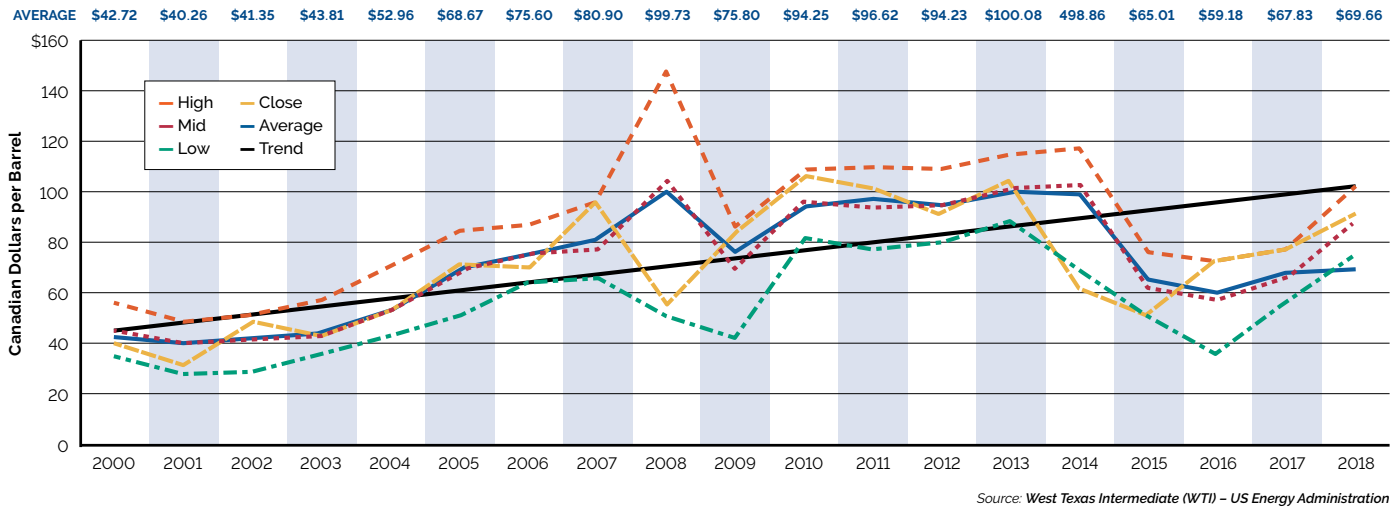
Supply and demand for oil on the world markets, as well as currency exchange rates, affects the price that the PPD pays for its fuel. In addition, crude oil and refined petroleum product prices are volatile because of political instability, adverse weather, terrorism, and surging or declining demand from developing countries.

As the graph below depicts, oil prices have declined significantly from the highs seen in 2011–2014. These declines have offered partial relief to the Government of Nunavut, as well as businesses and residents in Territory in terms of the prices paid for fuel products. However, oil markets remain volatile and there is a trend of increasing fuel prices beginning late 2017 and early 2018. Given this volatility, the world price for oil continues to play a significant role in the GN’s long term fiscal planning.



The graph below provides a trend analysis of WTI crude oil prices. While it captures the year-over-year highs and lows of oil prices within a given period, it demonstrates that the general trend in oil prices is increasing. Because of this trend, PPD must ensure it has the appropriate financial resources to conduct its fuel purchases each year in full. As such, PPD will be reviewing the limits of its revolving fund (\$200 million) to determine if legislated increase is warranted.

WTI Fuel Trend



Petroleum Products Provided by PPD

PPD provides five fuel products to communities in Nunavut:

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

Product Standards

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

Intertek Testing Services is contracted as PPD's third-party fuel quality control testing service provider. Intertek is a global leader in assurance, testing, inspection and certification and helps PPD guarantee the quality of its fuel products at the point of loading and throughout marine transportation. After the fuel is discharged to each community, PPD draws samples from each tank and sends them to Innotech Alberta for laboratory analysis and certification of specification.

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

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

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

Petroleum Product Pricing

Retail Price List – Prices Effective January 30, 2017

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

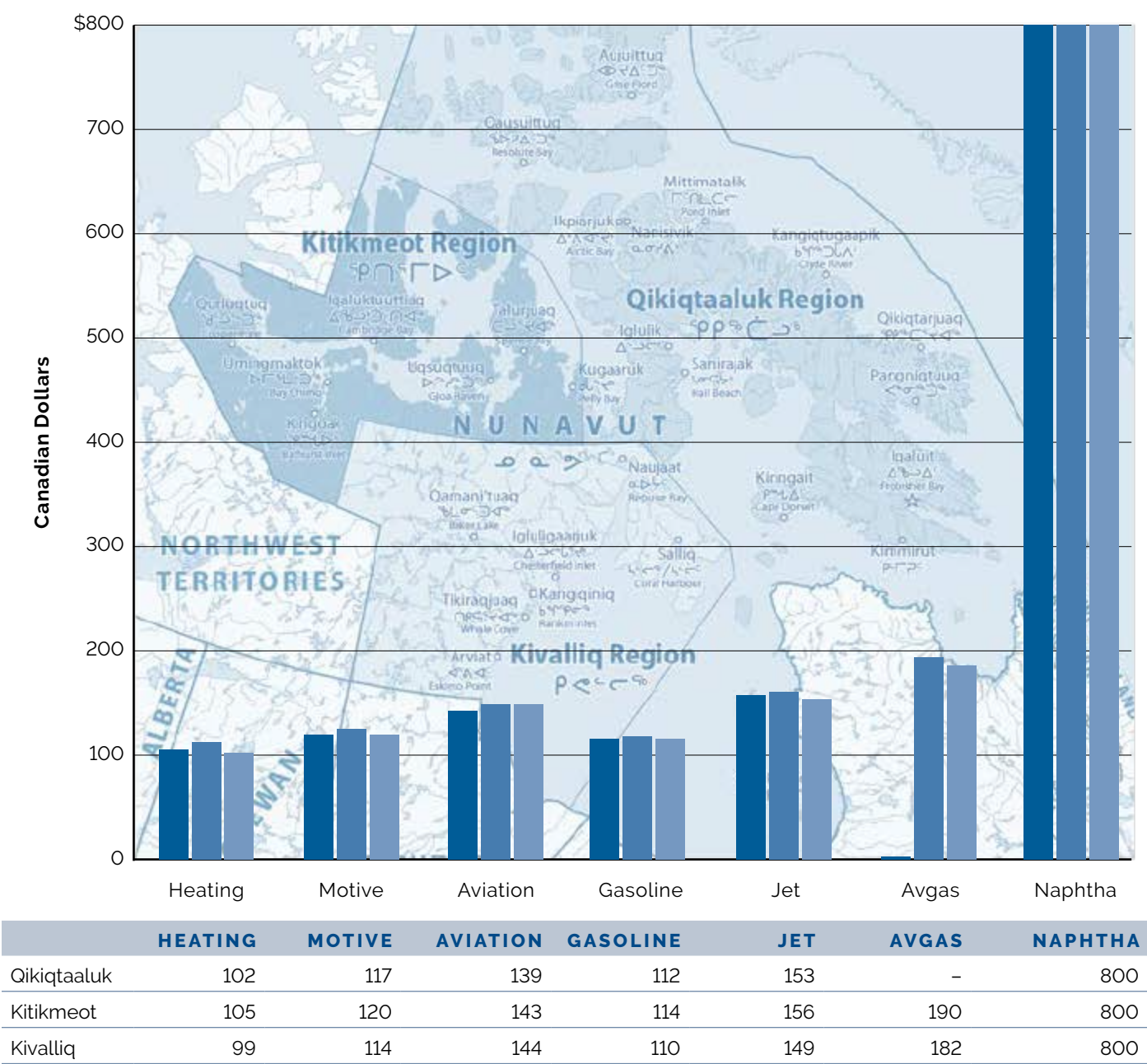
COMMUNITY	P50-HTG	P50-DSL	P50-AVN	GASOLINE	100LL	NAPHTHA	JET A1
Qikiqtani							
Igloolik	101.8	116.7	138.9	111.6		800.0	152.7
Hall Beach	101.8	116.7	138.9	111.6		800.0	152.7
Pond Inlet	101.8	116.7	138.9	111.6		800.0	152.7
Clyde River	101.8	116.7	138.9	111.6		800.0	
Arctic Bay	101.8	116.7	138.9	111.6		800.0	152.7
Resolute Bay	101.8	116.7	138.9	111.6		800.0	152.7
Grise Fiord	101.8	116.7	138.9	111.6		800.0	152.7
Kimmirut	101.8	116.7	138.9	111.6		800.0	
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
Iqaluit	81.3	*		*	155.2	800.0	128.8
Kivalliq							
Rankin Inlet	98.8	114.0	144.0	110.0	182.0	800.0	148.9
Arviat	98.8	114.0	144.0	110.0	182.0	800.0	
Chesterfield Inlet	98.8	114.0	144.0	110.0		800.0	
Baker Lake	98.8	114.0	144.0	110.0		800.0	
Coral Harbour	98.8	114.0	144.0	110.0		800.0	148.9
Nauyasat	98.8	114.0	144.0	110.0		800.0	
Whale Cove	98.8	114.0	144.0	110.0		800.0	
Sanikiluaq	98.8	114.0	144.0	110.0		800.0	
Kitikmeot							
Cambridge Bay	107.0	121.4	145.0	115.5	190.0	800.0	157.3
Kugluktuk	107.0	121.4	145.0	115.5	190.0	800.0	157.3
Gjoa Haven	107.0	121.4	145.0	115.5		800.0	157.3
Taloyoak	107.0	121.4	145.0	115.5		800.0	157.3
Kugaaruk	107.0	121.4	145.0	115.5		800.0	157.3

*Price set by the third party retailers who purchase from Uqsuq

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

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

2018 Nunavut Fuel Prices



PRICE COMPARATIVE WITH OTHER CANADIAN JURISDICTIONS

Below is a summary of a 5-year petroleum pricing comparative in Nunavut versus major cities across Canada.

AVERAGE RETAIL PRICE (¢/L)	2018			2017		
Community	Diesel	Gasoline	Heating	Diesel	Gasoline	Heating
Vancouver	139.7	169.8	130.0	120.9	153.2	109.6
Yellowknife	133.7	149.0	120.6	115.7	129.2	102.5
Victoria	136.3	161.3	139.8	115.5	143.6	121.2
Whitehorse	133.7	146.0	124.9	114.9	128.4	103.9
Montreal	131.7	146.4	117.5	112.2	127.4	95.9
Toronto	125.3	145.8	131.5	107.7	131.7	116.3
Thunder Bay	-	153.1	135.4	-	134.4	116.2
Quebec	131.9	142.4	114.8	112.6	127.4	94.3
Ottawa	126.3	142.3	129.8	107.0	128.9	112.7
Regina	119.5	130.8	114.9	101.5	114.7	97.8
Calgary	126.2	138.3	-	105.7	119.6	-
Nunavut*	116.8	111.9	101.0	116.8	111.9	101.0
Saskatoon	120.4	133.8	111.1	100.5	115.1	94.6
Winnipeg	121.2	130.4	117.0	103.3	114.6	97.6
St. John's	138.3	133.5	108.0	121.3	130.6	89.3
Halifax	121.8	127.8	107.2	104.4	116.8	94.5
Edmonton	124.2	134.7	-	104.5	116.3	-
Charlottetown and Summerside	132.2	129.2	99.2	113.7	116.7	82.1
Saint John	129.3	128.0	118.3	112.1	116.3	100.3
Average (not incl. Nunavut)	128.9	141.2	120.0	110.2	125.8	101.8

NU prices for premium unleaded gasoline (min 92 Octane), non-NU prices quoted as regular unleaded (87 Octane) NU diesel is #1 ultra-low sulphur diesel, non-NU prices is quoted as fuel oil

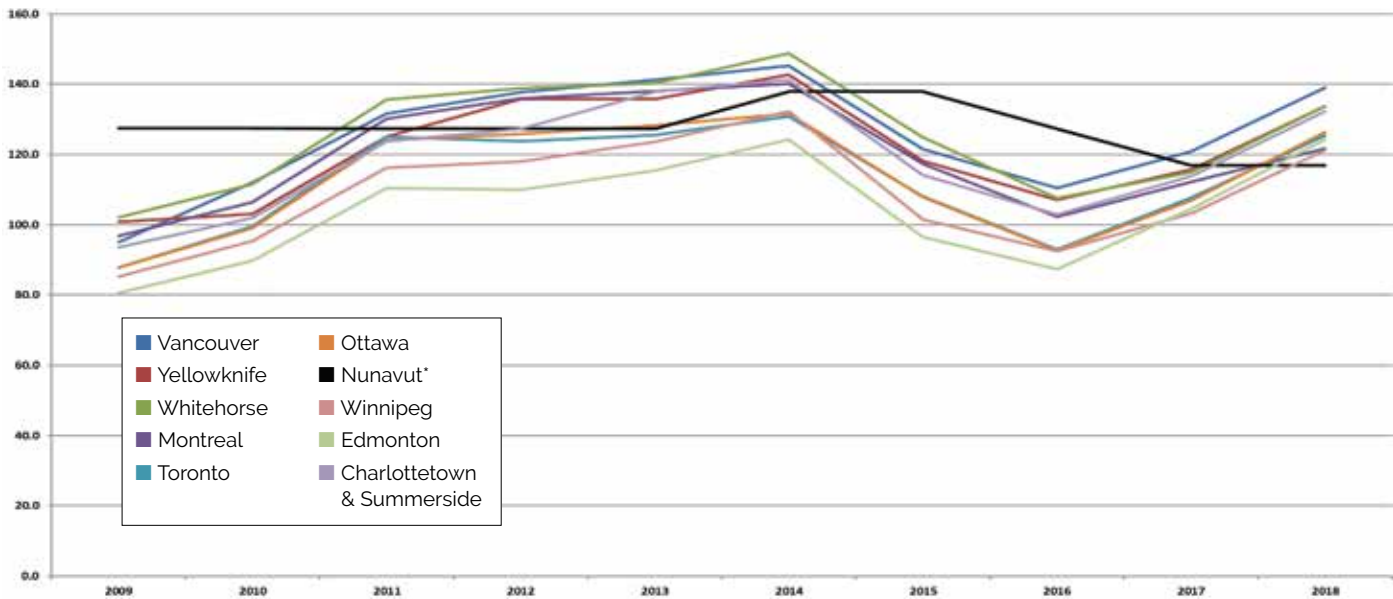
Statistics Canada. Table 18-10-0001-01 (formerly CANSIM 326-0009) - Average retail prices for gasoline and fuel oil, by urban centre, monthly (cents per litre) (accessed: 18 September 2019)

2016			2015			2014		
Diesel	Gasoline	Heating	Diesel	Gasoline	Heating	Diesel	Gasoline	Heating
110.5	135.7	98.0	121.5	139.6	106.6	145.2	153.1	130.4
107.1	123.7	90.7	118.1	135.7	102.3	142.6	149.6	132.7
104.1	128.8	106.8	113.6	132.1	118.2	138.4	141.5	140.4
107.6	119.9	94.1	125.0	123.0	108.1	148.8	144.1	134.9
102.2	118.1	85.8	117.3	130.2	99.6	140.1	149.3	122.6
93.0	118.1	99.1	108.0	123.7	111.8	130.8	144.8	133.1
-	122.5	99.6	-	128.8	108.5	-	148.9	136.2
103.0	115.7	80.5	118.0	123.1	97.2	139.9	144.7	122.6
92.7	114.7	97.6	107.9	120.2	108.7	131.6	141.1	131.1
91.0	107.1	87.4	100.3	115.4	97.0	132.5	135.3	128.8
90.1	108.9	-	100.4	115.7	-	128.4	131.4	-
127.3	115.9	111.8	137.8	126.44	122.2	137.8	126.4	122.2
90.8	107.2	86.9	101.3	115.8	94.7	133.4	135.3	126.8
92.5	109.1	87.3	101.4	113.2	97.0	132.3	132.6	127.0
108.3	120.1	76.6	116.0	115.7	82.4	139.9	137.1	107.2
93.7	107.0	87.0	105.0	114.2	99.3	134.1	140.0	125.6
87.3	103.3	-	96.5	110.2	-	124.2	126.6	-
102.8	106.5	75.9	114.2	113.6	87.1	141.2	139.4	113.0
101.4	105.8	88.8	112.0	111.8	101.4	137.0	135.3	124.6
98.7	115.1	90.1	110.4	121.2	101.2	136.5	140.6	127.3

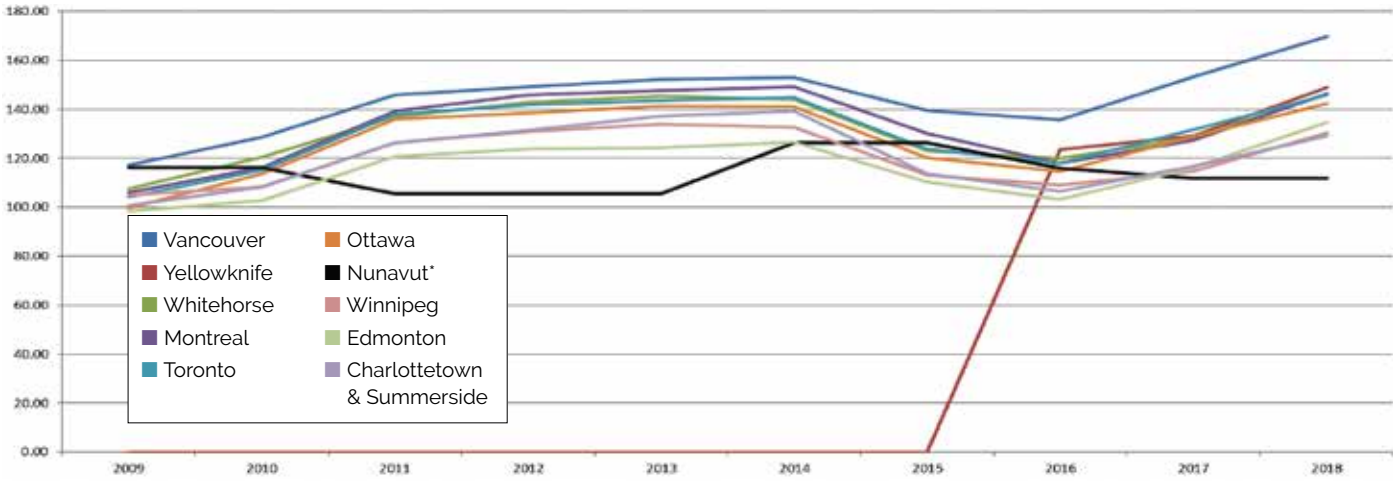
As demonstrated in the table above, in the years 2017 and 2018, the price of all three fuels (diesel, gasoline and heating fuel) in Nunavut was less than the average price among 18 municipalities across the country (except for the price of diesel in 2017); while in 2015 and 2016, the price of all three fuels in Nunavut were higher than the average by about 10 to 20 cents per litre. 2015 was a mix of more expensive than average (diesel) and less expensive than average (gasoline and heating fuel). These figures therefore show a significant improvement in petroleum pricing in Nunavut in 2017 and 2018.

The significance of Nunavut’s reduction in fuel prices compared to other jurisdictions is illustrated by the trends over the past ten years (2009 – 2018) as shown in the following three graphs (black line is Nunavut). In 2009, the cost of all three fuels in Nunavut was among the highest in the country; by 2018, Nunavut’s fuel prices were among the lowest in the country.

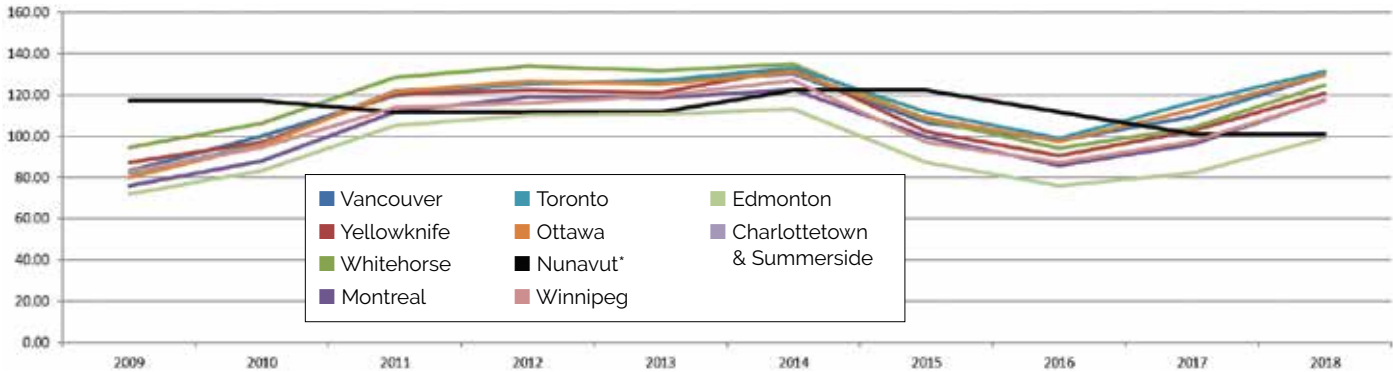
Diesel



Gasoline



Heating Fuel





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. Goods and Services Tax
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 by the 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

All petroleum products sold in Nunavut are subject to five percent (5%) Goods and Services Tax.

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:

PETROLEUM PRODUCTS										
		P50 Diesel			Gasoline		Avgas	Naphtha		Jet A-1
		Heating	Motive	Aviation						
Nunavut	\$	–	\$ 0.091	\$ 0.010	\$ 0.064	\$	0.010	\$	–	\$ 0.010
Federal Excise Tax		–	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 new product (litres)	Existing fuel value	Existing WA cost per litre
1,000	\$900.00	0.9000

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

Community 2

A	B	C = (B / A)
Fuel volume before receipt of new product (litres)	Existing fuel value	Existing WA cost per litre
800	\$720.00	0.9000

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

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 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*

Community 2

A	B	C = (B / A)	D	E	F = (A + D)	G = (B + E)	H = (G / F)
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
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:

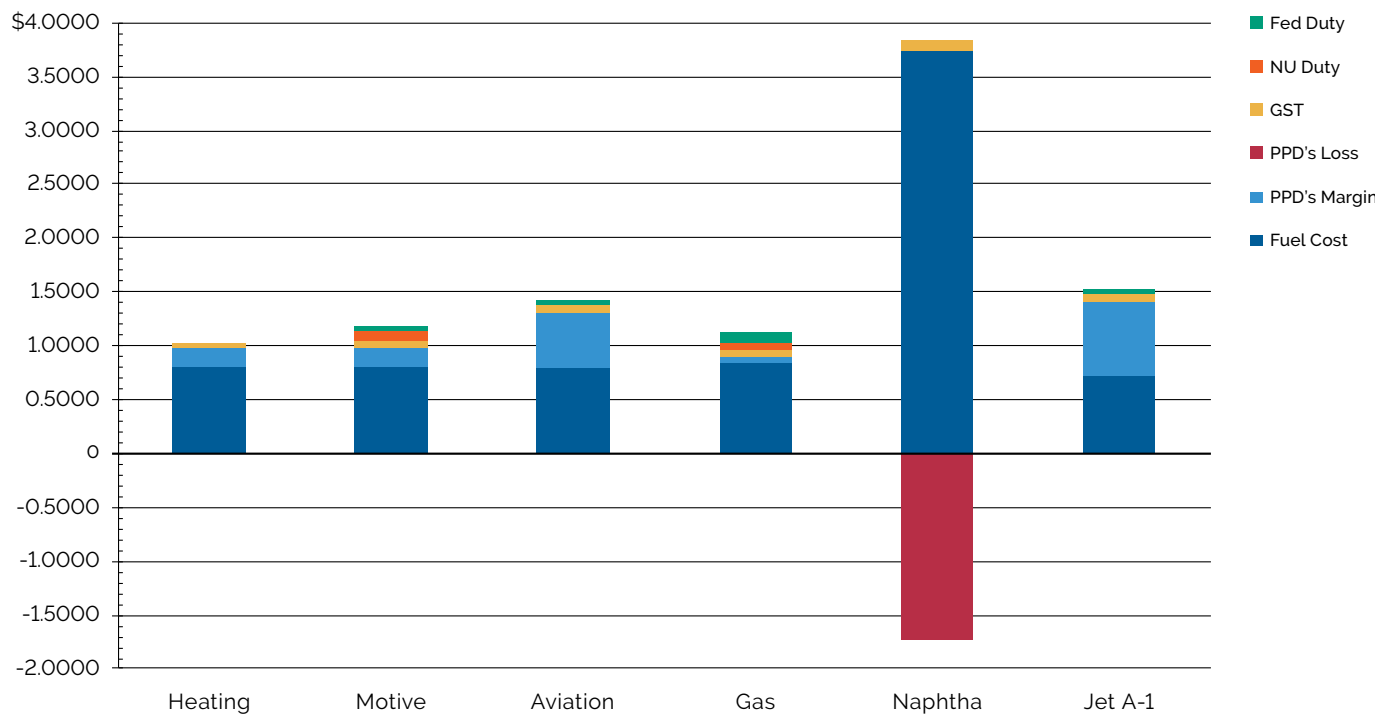
- emergency fuel airlift costs (used only in exceptional circumstances),
- ad hoc vessel anchoring expenses (e.g., bulldozer rental), and,
- inland freight charges (typically only for naphtha and aviation gasoline).

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 for Naphtha and Gasoline which are subsidized (red colouring).



Petroleum Sales

Overall, petroleum sales in Nunavut have increased over the past year (i.e., between 2016-2017 and 2017-2018) as well as over the past five years (i.e., since 2013-2014). The five-year trends in petroleum sales in three key categories are provided in the following table.

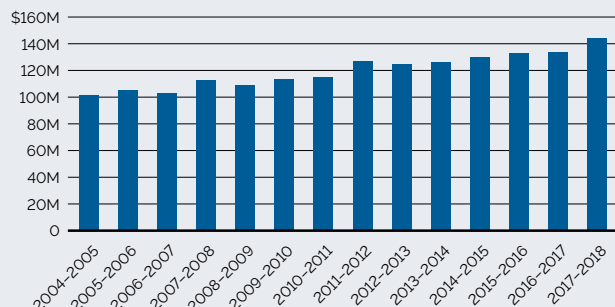
FUEL TYPE	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
	Litres	Litres	Litres	Litres	Litres
Total All P-50	127,080,353	130,761,950	133,852,860	134,399,999	144,503,634
Gasoline	20,804,880	20,219,597	20,984,584	20,874,943	21,881,018
Jet A-1	42,804,919	44,460,898	41,973,942	37,064,594	43,322,277
Total All	190,973,585	195,749,743	197,041,875	192,633,023	210,044,582

In summary, over the past five years, Nunavut-wide sales of diesel (All P-50) have increased by about 13%, while sales of gasoline have increased by about 5% and Jet A-1 fuel by about 1%.

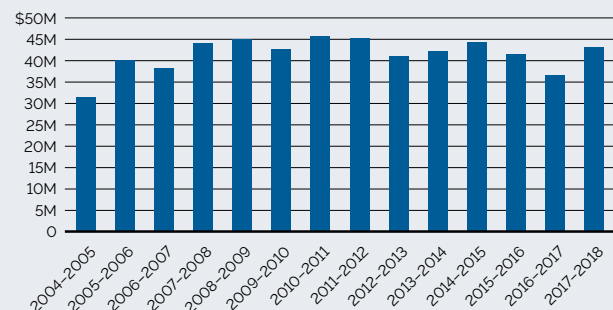
The above data show low to moderate growth and suggest a modest rise in consumption across all product groups over the past 5 years — a trend which is consistent with long term consumption in the Territory. Note that sales data is widely dispersed on a community level: where some communities show high rates of growth, others show low or negative growth trends. *Information on community-level data can be provided by PPD on request.*

Trends for P-50, Gasoline and Jet A-1 over a 14-year period (2004-2005 to 2017-2018) in Nunavut are depicted graphically below.

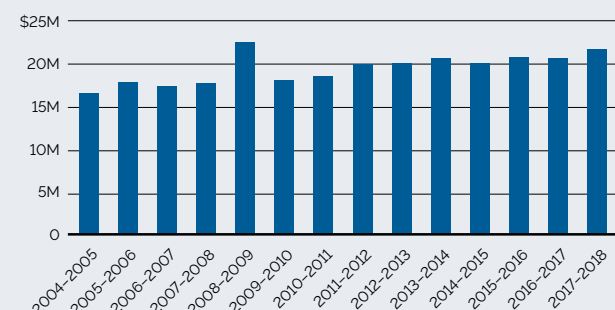
ALL P-50 SALES
2004-2005 to 2017-2018



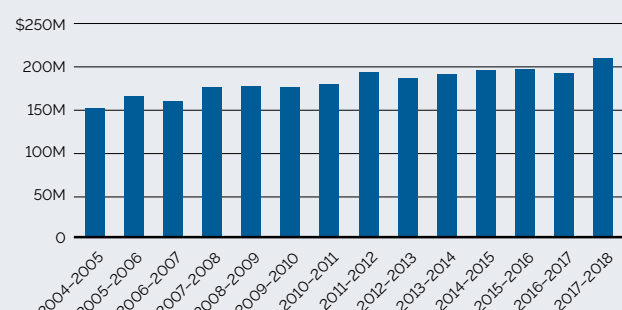
JET A-1 SALES
2004-2005 to 2017-2018



GASOLINE SALES
2004-2005 to 2017-2018



TOTAL - ALL FUEL SALES
2004-2005 to 2017-2018





Bulk Fuel Facilities

NUNAVUT FUEL CONTEXT

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

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

FACILITY AGE AND CONDITION

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

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

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

PPD weighs the pros and cons based on the age and condition of the tanks and surrounding tanks within the tank farm to determine whether 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 650¹ inspection is completed by a certified party. This inspection requires a technician to inspect the aboveground storage tank and containment area as well as the tank roof (domes and seals), tank shell, aperture, evaluation of settlement (foundation), strapping and the tank floor.



PPD contractors complete monthly inspections on all PPD infrastructure in the communities. They check for leaks, maintain tank systems free of foreign liquids, and look for progressive tank shell aging that may lead to catastrophic

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.

failure. Checklists used by the contractors allow PPD to comply with federal (Environment and Climate Change 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. These inspections also inform PPD headquarters of major issues that have not been dealt with by contractors or that are PPD's maintenance responsibility. PPD hires third party mechanics and pipeline inspectors to join them on their semi-annual inspections. Reports on deficiencies are then submitted to HQ operations in order to be addressed.

NEW TANK FARM PROCESS

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

REGULATORY COMPLIANCE

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

When assessing which tank farms require upgrades, code compliance is always addressed 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
- Measurements Canada
- National Fire Code of Canada
- Safety Act

The American Petroleum Institute (API) Standards 650, 653, and 620 are the main industry standards by which most aboveground welded storage tanks are designed, constructed and maintained. 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.

BULK FUEL FACILITIES UPGRADED IN 2017-18

In 2017, fuel storage facilities were upgraded in the following three (3) communities:

- Baker Lake,
- Chesterfield Inlet, and
- Coral Harbour.

In 2017, preliminary work commenced on fuel storage facility upgrades in the following four (4) communities:

- Kimmirut,
- Clyde River,
- Hall Beach, and,
- Grise Fiord (overlapping into 2019).

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 18 years, annual fuel consumption in Nunavut has risen by 38% from 148 million litres (1999) to 204 million litres (2017).

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% more fuel than is forecasted to account for sales volatility and dead space (fuel which is below suction, equivalent to approximately 4% of tank capacity).

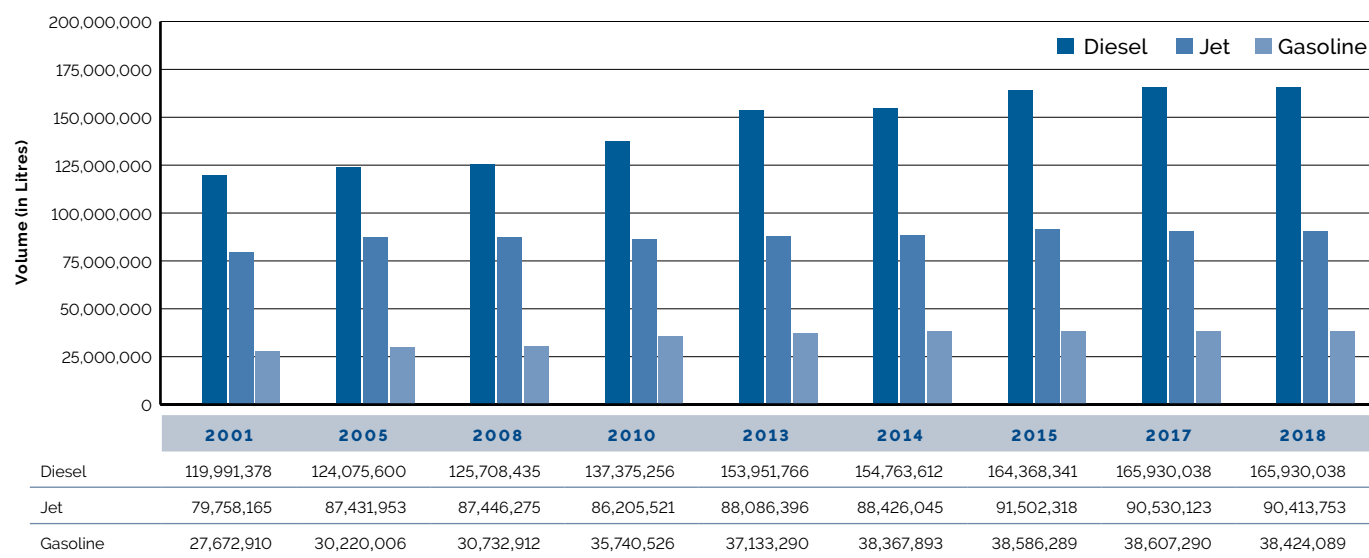
COMMUNITY CAPACITY LEVELS

PPD needs to be aware of community usage in order to complete the bulk fuel order every year for the territory; at the same time, 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

Fuel Tank Capacity (volume in litres)



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 2-3 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 for another review. The Interdepartmental Committee of Capital Planners 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.

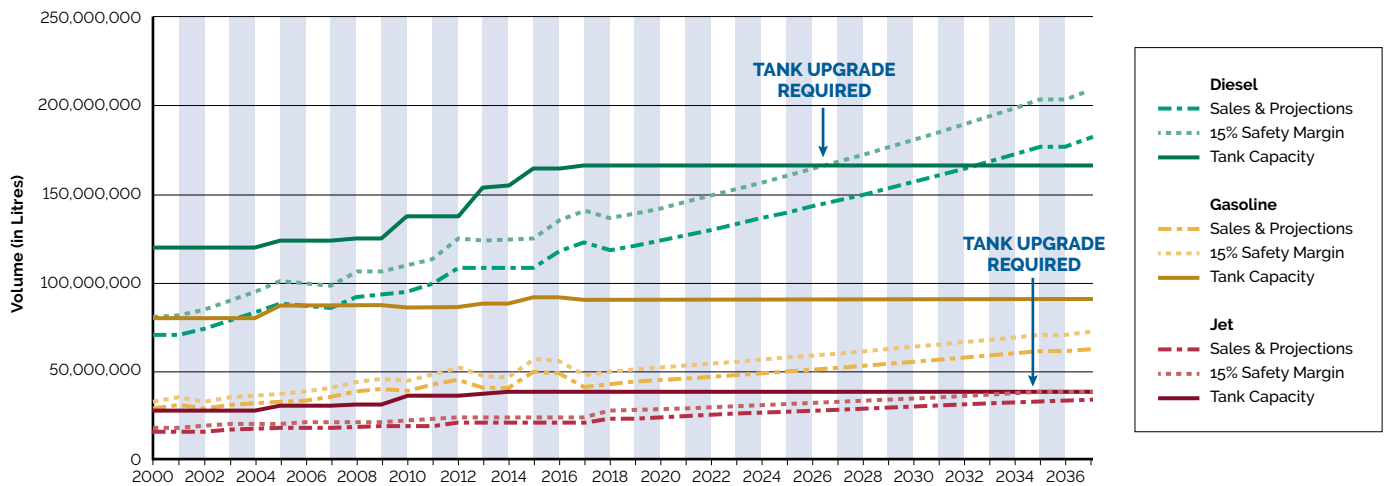
Finally, the sub sheet is submitted to be considered and approved by the Legislative Assembly as part of the Annual Capital Estimates.

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 endeavors to identify capacity and code compliance issues as early as possible so that any required facility upgrade may be incorporated into the GN's Capital Planning Process without delay.

Historical Sales Projection & Tank Capacity



Environment

ENVIRONMENTAL PROTECTION COMPLIANCE ORDERS (EPCOS)

In 2017–18, environmental code compliance issues were addressed in three communities. Code deficiencies remain in 15 communities.

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

In 2008, Environment Canada established new codes under the CEPA and as a result, several communities in Nunavut were shown to be in violation of the new code requirements. Because of these violations, PPD was issued 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 2017–18, code deficiencies were initiated in Clyde River, Hall Beach and Kimmirut.

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 2020. PPD was approved for \$17.5 million in capital funding to correct code deficiencies in 2015, of which, \$8.2 million will be used in 2017–18 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:

Petroleum Products Division – Code Compliance

QIKIQTANI	2015	2016	2017	2018	2019	2020	2021
Iqaluit	Code Compliant*						Planned Upgrade
Igloodlik		Code Compliant					
Hall Beach				Planned Upgrade		Code Compliant	
Pond Inlet						Planned Upgrade	
Clyde River				Planned Upgrade		Code Compliant	
Arctic Bay					Planned Upgrade		
Grise Fiord				Code Compliant			
Resolute Bay	Code Compliant						
Kimmirut				Planned Upgrade		Code Compliant	
Cape Dorset						Planned Upgrade	
Pangnirtung	Code Compliant						
Qikiqtarjuaq						Planned Upgrade	
KIVALLIQ							
Rankin Inlet		Code Compliant					
Arviat				Planned Upgrade			
Chesterfield Inlet			Code Compliant				
Baker Lake			Code Compliant				
Coral Harbour			Code Compliant				
Nauyasat						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		Code Compliant	
Taloyoak							Planned Upgrade
Kugaaruk					Code Compliant		
Umingmaktok				Decommissioning			

■ Code Compliant* with EPCO, not Regulations

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

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

LANDFARMING

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

The Government of Nunavut owns a soil remediation landfarm in Rankin Inlet. The facility was originally built during tank farm upgrades in 2008 for the purposes for remediating petroleum hydrocarbon (PHC) contaminated soil which was excavated from around and within the tankfarm during this time. In 2016–17, following spill on PPD's pipeline system, operational control of landfarm was transferred from CGS to PPD who began to operate and manage the facility.

In 2017–18, PPD continued to operate the landfarm and remediate the soil from its spill in 2016–17, as well as soils that had accumulated within the landfarm over a period of time. The remediation included a combination of aeration, microorganisms and soil conditioning.

PPD sees tremendous value in the use of landfarms both for PPD and communities in general. Landfarms enable local remediation and treatment of contaminated soils at significantly lower costs than shipping the soils south for remediation, and can create local employment for skilled workers in the environmental field. PPD will continue to operate the Rankin Inlet landfarm to remediate its soil from the 2016–17 spill, and will develop a landfarm management plan.

FUEL SPILLS

In 2017–18, there were 31 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 238 reported petroleum product spills across Nunavut in 2017–18, 31 spills were directly related to PPD’s fuel distribution operations, and of these, 27 spills were small (between 0–250 L). These small spills occurred in 14 communities across all three regions, as follows:

Small Petroleum Product Spills In Nunavut, 2017–18

QIKIQTANI COMMUNITIES		KIVALLIQ COMMUNITIES		KITIKMEOT COMMUNITIES	
Pangnirtung	1 Spill	Rankin Inlet	1 Spill	Taloyaoak	1 Spill
Iqaluit	7 Spills	Baker Lake	3 Spills	Kugaaruk	1 Spill
Sanikiluaq	1 Spill	Arviat	4 Spills	Gjoa Haven	1 Spill
Iglolik	2 Spills	Chesterfield Inlet	1 Spill	Cambridge Bay	1 Spill
Cape Dorset	1 Spill				
Grise Fiord	1 Spill				
Resolute	1 Spill				

Out of the 27 spills in fiscal 2017–18, 1 was due to unknown causes, 7 occurred from a fuel delivery truck, 11 were from pipelines, 5 were from large tanks, and 2 from a spilled fuel drum, 1 from civilian vandalism and 4 from leaks (pipes, valves, etc.)

There were 4 spills of larger volume (between 250 – 500 L). Larger volume spills occurred in the following communities:

Large Petroleum Product Spills In Nunavut, 2017–18

BAFFIN COMMUNITIES		KIVALLIQ COMMUNITIES		KITIKMEOT COMMUNITIES	
Iqaluit	1 Spill	Chesterfield Inlet	1 Spill	Gjoa Haven	1 Spill
		Arviat	1 Spill		

DRUM REMOVAL

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 2017–18, PPD removed 646 fuel drums from communities in the Baffin region at a total cost of \$245,619.27.

Key removals included:

- 184 drums from Pond Inlet,
- 358 from Resolute Bay, and,
- 104 from Arctic Bay.

Other communities had less than 10 drums and will be removed at a later date.

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 Kivalliq communities in fiscal 2018–19. Communities with a small number of drums (less than 10 drums) will be managed in the following years.

Engineering

STANDARDS AND CRITERIA

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

PPD's existing Standards and Criteria were produced in 2006: since then, new regulations, guides, codes, and legislation have been passed, but are not reflected in these Standards and Criteria. As a result, PPD, in collaboration with the GN Infrastructure and Stantec, are in the process of developing new Above Ground Bulk Fuel Storage Design Rationale, Standards and Specifications for Nunavut. All regulatory requirements, including legislation, codes, regulations, standards and guidelines, will be captured and

reflected in this update. The Standards and Criteria Package will include all aspects of design for Community Bulk Fuel, Airport Bulk Fuel, Distribution Systems, and Acceptable Practices for Compliance Testing.

The effort to update the current standards and criteria for petroleum infrastructure began in 2014, 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 August 2020 and is collaborating with the Government of Northwest Territories to strengthen its standards.

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

PPD has developed a Contractor's Manual that lists safety rules and regulations for new and existing contractors. It outlines the dangers of improperly handling petroleum products, the dangers of fuel vapours, characteristics of solvents, fire prevention, static electricity precautions, fire response procedures, handling fire extinguishers, Workers' Safety and Compensation Commission information, reporting injuries, spill prevention, spill response procedures, operations involved in bulk fuel storage

facilities, facility inspections and inventory control, job hazard assessment, field level hazard assessment, personal protective equipment requirements, ground disturbance requirements, preventive maintenance, work permitting, safe work practices, daily toolbox talks, weekly safety meetings, health & safety key performance indicators reporting, incident reporting & investigation, health & safety site orientation etc.

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

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

In the future, and 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.

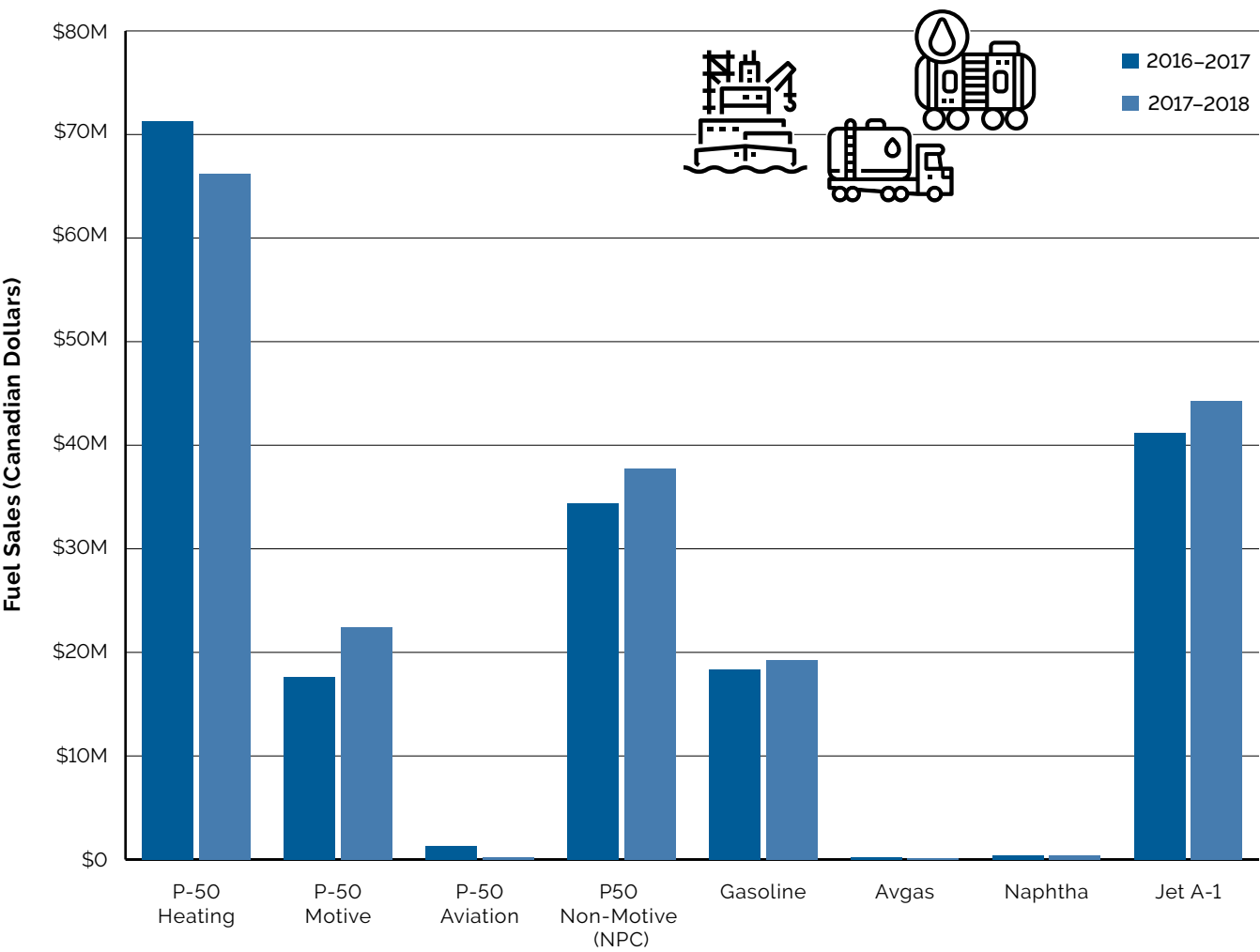


Finance

OPERATIONS AND ACCUMULATED SURPLUS

2017–18 sales revenue rose marginally over the prior year (2.3%) while rent and other revenue fell markedly (73.8%).

Fuel Sales by Type, by Year



Sales Revenues

Sales of product to Uqsuq Corporation in Iqaluit and bulk sales to QEC throughout the rest of the territory are priced at cost with no markup for either profit or overhead costs. Revenue from these customers remained stable between 2017–18 and 2016–17 with the increase in total revenue largely attributable to commercial customers.

Effective November 1, 2018, retail fuel prices were made uniform by product type and region (i.e., Kitikmeot, Kivalliq, and Qikiqtaaluk).

Rent and Other Revenues

Rent and other revenues fell markedly in fiscal 2017–18 due to the absence of non-typical revenue items recorded in the previous fiscal year, including:

- a \$3.3 million prior-year recovery; and,
- \$7.8 million in revenue from Uqsuq regarding reimbursements for pipeline upgrades and new jet fuel delivery trucks.

SCHEDULE OF EXPENSES

Total expenditures in 2017–18 rose \$10.4 million, or 5.6%, over the prior fiscal year. Cost of goods sold: the cost of fuel products, experienced the greatest increase at \$10.8 million, or 7.1%, while commissions, salaries and wages, bad debt expense, and contracted services rose by 7.9%, 0.6%, 5.1%, and 11.2%, respectively. These increases were offset in part by decreases to operations and maintenance, amortization, and travel expenses of 34.4%, 31.9%, and 2.3%, respectively.

Cost of Goods Sold

The average cost of all fuel products rose in 2017–18 versus the prior year, notably kerosene-based products; P50 diesel and Jet A-1. P50 diesel rose \$0.0902/L, or 14.2%, while Jet A-1 rose by \$0.1002/L, or 19.3%. Gasoline experienced an increase of \$0.0633/L, or 9.4%, versus 2016–17. The rise in cost of goods sold does not correlate exactly to these increases as the new, higher-priced volumes were blended with less expensive inventories leftover from the prior year.

Commission Expenses

Commission expenses rose versus the prior year (\$13.9 versus \$12.9 million) due in part to the regularly schedule rate increases contained in the fuel delivery service agreements which became effective October 1, 2016.

Other Expense Classes

Expense items outside of cost of goods sold and fuel delivery commissions fell in aggregate by \$1.5 million, or 7.4%.

STATEMENT OF FINANCIAL POSITION

The inventory value of petroleum products fell significantly in 2017–18 due to the timing of early purchases. Accounts Payable declined accordingly.

PPD may purchase and hold inventory of fuel both within and outside of Nunavut, depending on the timing of the fuel purchase. The year-end inventory value of petroleum products for 2017–18 fell significantly versus the prior year (\$77.3 million versus \$111.4 million; a decline of 30.6%) because of the timing of these purchases. The timing of early purchases also affects accounts payable (AP) as only a portion of the purchase price (e.g., 40 – 60%) is remitted when the fuel is secured. AP at 2017–18 year-end totaled \$4.4 million versus \$31.9 million in 2016–17; a decline of 86.2%.

Accounts receivable at year-end improved (i.e., decreased) by \$7.3 million due to the receipt of payment from QEC for

bulk fuel sales. Unfortunately, total accounts receivable also declined due to the recognition of \$5.5 million in the allowance for doubtful accounts regarding amounts owed for bulk fuel sales to Kitnuna Petroleum Ltd., PPD's fuel delivery contractor in Cambridge Bay.

YEAR-END AUDIT

The preparation and audit of the 2017–18 financial statements was completed in a more timely manner than the prior fiscal year. The audit was again performed by PricewaterhouseCoopers (PwC).

The financial statements and audit report for 2017–18 were signed-off on August 10, 2018, a marked improvement versus the prior fiscal year's sign-off date of November 15, 2017. Highlights of the audit report include:

1. Related Parties – as related parties, PPD must reconcile its revenue, expense, accounts payable, and accounts receivable balances with the Government of Nunavut, QEC, and the Nunavut Housing Corporation. No significant related party transactions outside of the normal scope of business were identified and related party balance variances totaled \$229,249 in aggregate.
2. Accounts Receivable – of note regarding receivables was the inclusion of \$5.5 million in the 2017–18 Allowance for Doubtful Accounts from amounts owed by Kitnuna Petroleum Ltd., the fuel delivery contractor in Cambridge Bay. This amount stems from the sale of bulk fuel products.
3. Adjusted Items – two inventory items were adjusted through the course of the audit for a net impact of \$2.1 million.
4. Internal Control Recommendations
 - a. Resolved – Prior-year recommendations regarding the valuation of environmental liabilities, the allocation of customer credit balances, the reconciliation of internal bank clearing accounts, and the internal update of retail fuel prices were improved and considered resolved by PwC.
 - b. Unresolved – Notable observations from PwC include the fact that related party balances were not reconciled quarterly, information technology systems at PPD are limited in their capacity, and that human resources are constrained both in number and capacity.
 - c. New – For 2017–18, PwC noted four instances where fuel sales were charged to the wrong customer account and recommended that additional review be performed throughout the billing process.

PETROLEUM VARIANCES

In 2017–18, PPD experienced a nominal recovery of fuel inventories.

There are two primary sources of fuel variance in the petroleum industry; physical fuel loss due to evaporation, meter inaccuracy, theft or leakage and adjusted losses due to inaccurate data, for example; missing sales, accounting errors, dip errors.

While PPD has numerous internal mechanisms in place to mitigate these potential sources of losses, some minimal variance is often unavoidable, notably where it concerns the impact of evaporation.

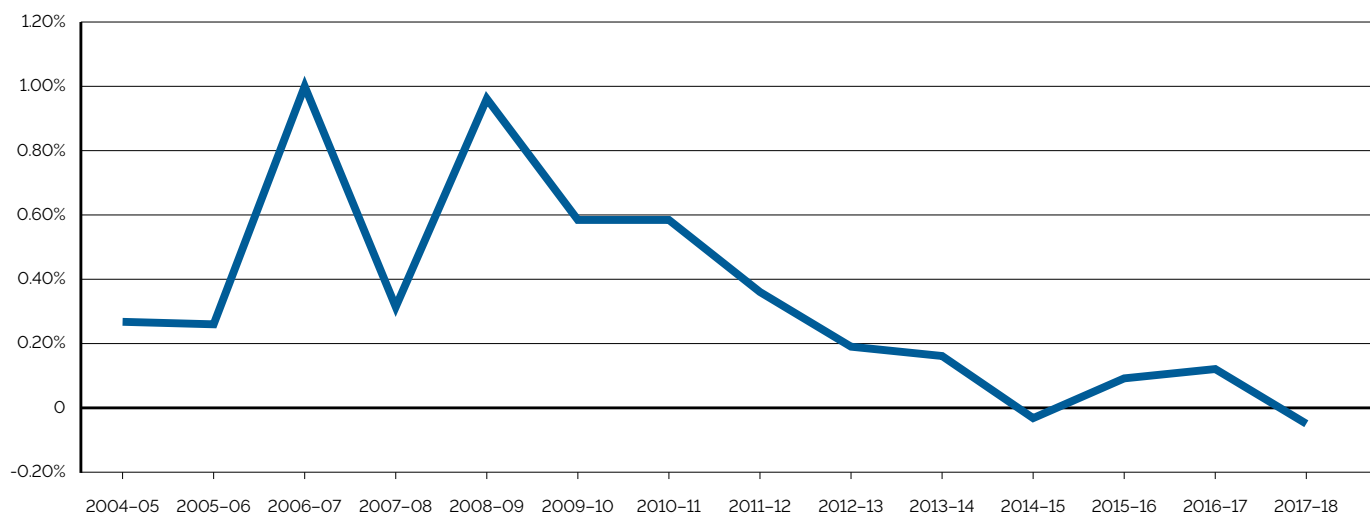
During the 2017–18 fiscal year, PPD recognized a recovery of 94,952 litres of combined fuel products (i.e., P50 diesel, Jet A-1, gasoline, etc.) which represents a value of \$172,825.74. The impact of this recovery equates to 0.05% of total sales volume and is in line with amounts recognized in the recent prior years. Below is an account of historical PPD write-offs and recoveries for fuel shrinkage:

% of Total Litres Sold

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

This trend in volume written off is depicted graphically below, which clearly shows that in recent years the volume written off is anywhere from half to one-tenth of earlier years.

Volume Written-off as % of Total Litres Sold



Audited Financial Statements



11/2/15
Decoron Coatings Ltd.
Tank Exterior
1 Coats Cathafoat 302 b
2 Coats Bar-Rust 236



August 10, 2018

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, 2018 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.

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T: +1 780 441 6700, F: +1 780 441 6776*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**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, 2018 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

Nunavut Petroleum Products Revolving Fund
Statement of Financial Position
As at March 31, 2018
(thousands of dollars)

	2018	2017
FINANCIAL ASSETS		
Cash	\$ 5,846	\$ 5,534
Accounts receivable (Note 3)	48,137	67,786
Inventories for resale (Note 4)	77,372	111,423
TOTAL FINANCIAL ASSETS	\$ 131,355	\$ 184,743
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	4,384	31,865
Employee leave and termination benefits	223	278
Due to the Government of Nunavut (Note 1&11)	128,026	154,425
TOTAL LIABILITIES	\$ 132,633	\$ 186,568
NET FINANCIAL DEBT	\$ (1,278)	\$ (1,825)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	1,278	1,825
TOTAL NON-FINANCIAL ASSETS	\$ 1,278	\$ 1,825
Accumulated surplus - end of the year	-	-

Commitments and contingencies (Note 12)

Approved by: Management

[Signed: Ford Widrig]

Director

[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, 2018
(thousands of dollars)

	Unaudited 2018 Budget		2018 Actual		2017 Actual
Revenues					
Sale of petroleum products (Note 6)	\$ 192,023	\$	194,265	\$	189,914
Rent and other revenue (Note 7)	-		2,933		11,214
Total Revenue	\$ 192,023	\$	197,198	\$	201,128
Expenses					
Supply and delivery of petroleum products (Schedule A)	182,700		196,104		185,735
Surplus for the year	\$ 9,323	\$	1,094	\$	15,393
Accumulated surplus - beginning of the year			-		-
Transfer to Government of Nunavut (Note 11)		\$	(1,094)	\$	(15,393)
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, 2018
(thousands of dollars)

	2018 Actual	2017 Actual
Surplus for the year	\$ 1,094	\$ 15,393
Tangible capital assets		
Additions	-	(1,505)
Amortization	547	803
Disposals	-	-
	\$ 547	\$ (702)
Change in prepaid expenses	-	3
Transfer to Government of Nunavut (Note 11)	(1,094)	(15,393)
Change in net financial debt	547	(699)
Net financial debt - beginning of the year	(1,825)	(1,126)
Net financial debt - end of the year	\$ (1,278)	\$ (1,825)

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, 2018
(thousands of dollars)

	2018	2017
Cash provided by (used for) operations		
Sale of petroleum products	\$ 213,913	\$ 187,457
Rent and other revenue	2,934	11,214
Supply and distribution of petroleum products	(189,042)	(146,263)
	27,805	52,408
Cash used for capital activities		
Tangible capital asset acquisitions	-	(1,505)
Cash used for financing activities		
Net payments to Government of Nunavut	(27,493)	(46,463)
Increase in cash	312	4,440
Cash - beginning of the year	5,534	1,094
Cash - end of the year	\$ 5,846	\$ 5,534

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

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, 2018, 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 2017-2018 Main Estimates.

2. Significant Accounting Policies

a. Basis of Accounting

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

b. Inventories for resale

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

c. Cash

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

d. Non-financial assets

Non-financial assets, including tangible capital assets 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 (2017 - 1.01 times for members enrolled before January 1, 2013 and 1.00 times for members enrolled beginning January 1, 2013). As the plan is accounted for as a multi-employer plan and actuarial information on the plans surplus/deficit is not readily available, the plan is measured using the defined contribution contributions are charged as an expense on a current year basis and represent the total pension obligation.

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

h. Employee leave and termination benefits

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

i. Measurement uncertainty

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

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

j. Revenues

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

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

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

k. Expenses

Expenses are recorded on an accrual basis.

l. Contractual obligations and contingencies

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

The contingencies of the Fund are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur and is quantifiable, an estimated liability is accrued. If the likelihood is not determinable or the amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements and no liability is accrued. Contingent liabilities result from among other things, potential environmental contingencies.

m. Financial instruments

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

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

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

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

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

A number of new and amended standards issued by PSAB came into effect on April 1, 2017. The Fund has prospectively adopted the following standards from April, 1, 2017:

PS 2200 - Related Party Disclosures 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 provides guidance for applying the definition of assets set out in PS 1000, Financial statement concepts, and establishes general disclosure standards for assets.

PS 3320 - Contingent Assets defines and establishes disclosure standards for contingent assets.

PS 3380 - Contractual Rights defines and establishes disclosure standards on contractual rights.

PS 3420 - Inter Entity Transactions establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The effects of adopting these standards resulted in changes in disclosures in Notes 2(f), 10, 13, and 14.

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 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.

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

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

	2018	2017
Commercial/Private	\$ 32,492	\$ 33,768
Territorial Municipalities and Housing Associations	5,128	5,921
Nunavut Housing Corporation	5,220	8,965
Qulliq Energy Corporation	15,891	23,270
Government of Nunavut - Community and Government Services Department	2,345	3,503
Government of Canada	941	858
	62,017	76,285
Less: Allowance for doubtful accounts	(13,880)	(8,499)
	<u>\$ 48,137</u>	<u>\$ 67,786</u>

4. Inventories for resale

	2018	2017
Heating fuel	\$ 49,953	\$ 41,260
Other fuel	17,435	43,666
Gasoline	9,984	26,497
	<u>\$ 77,372</u>	<u>\$ 111,423</u>

Inventories of \$173 were recovered in 2018 due to variances in physical counts with initial inventory records (2017 - \$169 written-off to reflect the evaporation and shrinkage that occurs during the annual discharge and dispensing of fuel). Inventories include \$7,071 of fuel products held by a third party and carried at cost (2017 - \$44,452 of fuel products held by a third party and carried at cost).

5. Accounts payables and accrued liabilities

	2018	2017
Accrued liabilities	\$ 1,908	\$ 1,662
Fuel and sales taxes payable (receivable)	(318)	10,508
Accounts payable	2,794	19,695
	<u>\$ 4,384</u>	<u>\$ 31,865</u>

As explained in note 12e, accrued liabilities in fiscal 2018 included a provision for oil spill costs of \$1,117 (2017 - \$1,336).

6. Sale of petroleum products

	2018	2017
Wholesale	\$ 39,598	\$ 39,741
Commercial/Private	73,715	68,673
Territorial Municipalities and Housing Associations	10,839	11,615
Nunavut Housing Corporation	19,845	20,665
Qulliq Energy Corporation	38,783	36,200
Government of Canada	2,980	4,035
Government of Nunavut	8,505	8,985
	<u>\$ 194,265</u>	<u>\$ 189,914</u>

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

7. Rent and other revenue

	2018	2017
Rent and other income	\$ 2,932	\$ 7,818
Interest income	1	85
Recovery of prior years expenditures over-accrual	-	3,311
	<u>\$ 2,933</u>	<u>\$ 11,214</u>

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

8. Tangible capital assets

	2018	2017
Fuel delivery vehicles		
Cost of tangible capital assets		
Opening balance	\$ 15,122	\$ 13,617
Additions	-	1,505
Disposals	-	-
Closing balance	<u>\$ 15,122</u>	<u>\$ 15,122</u>
Accumulated amortization		
Opening balance	(13,297)	(12,494)
Amortization	(547)	(803)
Disposals	-	-
Closing balance	<u>\$ (13,844)</u>	<u>\$ (13,297)</u>
Net book value	<u>\$ 1,278</u>	<u>\$ 1,825</u>

9. Financing costs

Management estimated that the financing costs relating to its working capital advances from the Government were \$3,382 for 2018 (2017 - \$1,899). The financing cost is based upon the average monthly balances due to the Government at a monthly average borrowing rate applicable to the Government. The borrowing rate ranged from 1.17% to 1.93% during the year (2017 - 0.90% to 1.23%). These financing costs are not charged to the Fund by the Government.

10. Related party transactions

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

A portion of the total annual sales to Qulliq Energy Corporation are priced at cost; the per-litre cost of fuel and associated freight with no added margin. These are referred to as, "bulk sales" and represent fuel purchased by Qulliq Energy Corporation for generating power throughout the Territory. In 2017-18, bulk sales to Qulliq Energy Corporation totalled 19,516,773 litres at a value of \$16,235 (2016-17 18,520,537 litres at a value of \$13,455). The Fund also incurred expenses totalling \$952 (2017 - \$914) from Qulliq Energy Corporation and \$Nil (2017 - \$811) in expenses from Government of Nunavut - Community and Government Services Department.

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, 2018, the Fund recorded a transfer to the Government of Nunavut of \$1,094 (2017 - \$15,393 transfer) in the Statement of Operations and Accumulated Surplus pursuant to the Act.

The accumulated surplus or deficit balance in the Stabilization Fund cannot exceed \$10,000. As at March 31, 2018, the Stabilization Fund surplus was \$8,796 (2017 - \$7,702) and is recorded and maintained by the Government of Nunavut.

12. Commitments and contingencies

a. Fuel supply and transportation contracts

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

b. Wholesale resupply contracts

Iqaluit

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

c. Community fuel delivery contracts

The Fund provides fuel delivery services in 25 communities in Nunavut. These services are carried out through formal fuel delivery contracts which are awarded by the Government to local individuals or businesses residing in the respective communities. Contracts were awarded for 23 communities on November 1, 2016 and will expire October 31, 2026. Of the remaining two communities, one was awarded for Rankin Inlet on November 1, 2016 and will expire November 30, 2026. The final community; Iqaluit, is expected to receive a new contract after November, 2018. Under the contracts, private contractors are paid a commission for services rendered on a "cents per litre" basis.

d. Environmental site assessments and remediation costs

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

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

Location	Nature of the Environmental Liability	2017		2018	
		Accrued Liability	Work Completed/ Change in Estimated Accrued Liability	Accrued Liability	Accrued Liability
Baker Lake	Fuel spill with the potential contamination of 4,000 M ³ of soil	\$ 866	\$ -	\$ 866	
Resolute Bay	Approximately 100,000 L of gasoline spilled at one of the Fund's fuel storage facilities	\$ 120	\$ (19)	\$ 101	
Gjoa Haven	Fuel spill of approximately 2,000 L of Jet A-1 requiring remedial action	\$ 350	\$ (140)	\$ 210	
		\$ 1,336	\$ (159)	\$ 1,177	

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

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

13. Contingent Assets

The Fund has no contingent assets at March 31, 2018.

14. Contractual Rights

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

Nunavut Petroleum Products Revolving Fund
Notes to the Financial Statements
March 31, 2018
(in thousands of dollars, unless otherwise stated)

15. Financial risk management

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

a) Liquidity risk

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

b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund's maximum exposure to credit risk is the carrying value of its accounts receivable. A significant amount of the Fund's accounts receivable is due from government entities and, as such, has low credit risk. The Fund manages credit risk through monitoring of the outstanding balances. At March 31, 2018, allowance for doubtful accounts of \$13,880 was recorded.

Nunavut Petroleum Products Revolving Fund
Schedule of Expenses by Type
For the year ended March 31, 2018
(thousands of dollars)

Schedule A

	2018		2017	
	Supply & Delivery of Petroleum Products		Supply & Delivery of Petroleum Products	
Expense type:				
Cost of goods sold	\$	163,660	\$	152,832
Commissions		13,917		12,903
Salaries, wages and employee benefits		4,922		4,894
Operations and maintenance		3,444		5,248
Amortization		547		803
Bad debt expense		5,381		5,118
Contract and consulting services		3,188		2,867
Travel and relocation		1,045		1,070
Total expense	\$	196,104	\$	185,735

