

QULLIQ ENERGY CORPORATION

CORPORATE PLAN

2006-2007



1.0 INTRODUCTION

Qulliq Energy Corporation (QEC) is a Crown Corporation owned 100% by the Government of Nunavut (GN). The corporation was originally established in 2001 as Nunavut Power Corporation (NPC) under the Nunavut Power Utilities Act. It was renamed Qulliq Energy Corporation and the Nunavut Power Utilities Act was renamed the Qulliq Energy Corporation Act as the result of legislation passed in March 2003 which also broadened the corporation's mandate to respond to a range of energy use and conservation issues in Nunavut.

Qulliq Energy Corporation operates several divisions, some using registered trade names "Nunavut Power" "Qulliq Energy" and "Nunavut Energy Centre". These are not separate corporations. They all share the same reporting structure and Board. The Corporation also has a registered trade name "Qulliq Fuel" which is not currently in use.

Nunavut Power generates and distributes electrical power to Nunavummiut through the operation of twenty-seven (27) diesel generation plants in 25 communities, provides mechanical, electrical and line maintenance from three regional centers, and administers Nunavut Power's billings and the Corporation's human resource and financial activities from offices in Iqaluit and Baker Lake.

Qulliq Energy attends to the overall objects provided by legislation, supports the Minister of Energy on intergovernmental issues, has the mandate to manage the capital projects of the corporation, and respond to issues of alternative generation sources.

Nunavut Energy Centre is our newest division, having started to operate in 2005-06. The NEC is taking up the energy conservation mandate for Nunavut, working with individuals, community governments, businesses and non-governmental

organizations to identify and evaluate and support the implementation of energy efficiency projects.

1.1 Vision

From its inception in 2001 the Corporation's **Vision** Statement has been:

Powering Nunavummiut into the Future ... Today

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

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

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

1.2 Mission

The Corporation's **Mission** Statement is:

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

1.3 Values

The **Values** included within the Mission Statement are:

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

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

Efficiency is applicable to all of the Corporation's operational and administrative activities. Efficiency indicates the Corporation's intention to respect the investment made by the people of Nunavut in the Corporation, and to use resources with clear attention to reasonableness and value.

Responsive and Respectful guides the Corporation's actions and interaction with all stakeholders, of which there are many. The stakeholders integral to our core business are our customers, the communities we live in, and the long term goals of our shareholder.

April 1, 2006 is the fifth anniversary of the creation of the corporation and during this year we intend to review, update and refresh the Vision, Mission and Values which have served us for the first five years.

1.4 Logo

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



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

The Nunavut Power logo continues to be used for electrical generating activities and the Nunavut Energy Centre Logo appears on materials and buildings engaged in the Corporation's conservation mandate.



I

2.0 ENVIRONMENTAL SCAN AND CRITICAL ISSUES

2.1 Environmental Scan

Qulliq Energy Corporation operates within a broad spectrum of social, political, geographical, environmental and economic conditions specific to the unique challenges of generating and distributing electricity in Nunavut.

2.1.1 Social

Nunavut is a young jurisdiction with a youthful and growing population of approximately 29,000, situated in 25 widely separated communities. The largest communities have 3 to 6 thousand people, the smallest have several hundred. While employed Nunavummiut are typically well remunerated, wage-economy opportunities and economic activity in Nunavut are limited.

The Corporation operates within the context of an 85% Inuit population, and the framework built by the Nunavut Land Claims Agreement. In particular, the Corporation works to implement Article 23 of the Agreement which requires efforts to create a representative public service, and Article 24 which sets up a procurement preference for Inuit, Nunavut and Local contractors.

2.1.2 Political

The corporation's sole shareholder is also its largest customer, its largest supplier, its ultimate regulator and the source of consumer subsidy regimes. The Government of Nunavut and the Minister of Energy play a very significant role in the Corporation's activities.

The Board of the Corporation is appointed by the Minister of Energy and Qulliq Energy must apply to the Utility Rates Review Council (URRC) for rate changes.

The Utility Rates Review Council is created by an act of the same name. Its purpose is to make rate recommendations to the responsible Minister. The responsible Minister determines whether he wishes to implement the regulator's recommendation, the Corporation's request, or wishes to instruct that the process begin again.

During the year 2005-06 the Minister provided to the corporation for the first time an Instruction Letter, tabled in the Legislative Assembly and is reproduced in Appendix E of this Business Plan. It was intended that the letter provide direction to the Chair and Board in identifying the shareholder's primary concerns.

The Government of Nunavut also delivered its mandate statement for the second term in the document "Pinasuaqtavut 2004-09". The corporation has been assigned the lead role in responding to the goal enunciated for this five year period to *"conserve and reduce the use of energy and find alternatives to diesel fuel for electricity generation."* More detail in relation to Qulliq Energy's role in the work identified by the GN is provided in Appendix "D".

The corporation will continue to work to build its relationship with its shareholder, providing regular reporting to the Crown Agency Council. Connections within the GN, to the Energy Secretariat in Executive and Intergovernmental Affairs and to the Departments of the Environment and Economic Development and being built through regular discussions and communication.

2.1.3 Rate Regulation Activity

In August 2004 QEC submitted a General Rate Application for URRC review. The Board of Qulliq Energy advanced a territorial rate in that application, suggesting that Nunavummiut share the costs of providing electricity as a basic service. This would have resulted in significant price increases in some centers, including Iqaluit, and a re-balancing of rates in others.

Public hearings did not generate widespread support for this proposal. The resulting URRC recommendations came after a stormy few weeks in which hearings were held in many Nunavut communities and considerable controversy was generated over the corporation's revenue needs, the impacts of price increases on an energy-dependent economy and operational approaches of the corporation.

The URRC did recommended an across the board rate increase, using as its basis the existing community-cost-driven rates. The new rate combines the inherited rates and newly implemented across the board adjustments, into a hybrid rate. In February 2005 the Minister delivered an Instruction for Nunavut Power to increase its revenue by 15% through an across-the-board rate increase on April 1, 2005.

In response to this increase, changes occurred to subsidy regime provided by the GN to Nunavummiut. The revised Nunavut Electricity Subsidy Program provides support to residential customers in all communities using as base rate of 50% of the Iqaluit rate. Residential consumers receive this subsidy for up to 700 kWh per month in summer and up to 1000 kWh in the winter. There was no change made to social housing or commercial subsidies.

The base rate increase of April 1, 2005 was acknowledged by the regulator and all involved as not being adequate to cover the operating costs of Qulliq Energy, nor providing a rate of return on equity (at 9.6% as provided in the Instruction) which would permit the corporation a healthy rate of capital re-investment in its plant and equipment.

In May 2005, the corporation made a two-part Capital Stabilization application. Part of the application provided options for rate relief for the higher capital cost communities, who had been burdened under the "community" rate system

created by the NWT PUB. Part of the application identified options for increasing or generating corporate revenues to cover deficits and provide for capital growth.

In September 2005 the URRC provided the Minister of Energy with recommendations to re-balance the community rates as they impacted on consumers in Whale Cove and Kimmirut, and the Minister provided a similar instruction to the corporation, effective November 1, 2005.

Following fuel re-supply in the summer of 2005, Qulliq Energy Corporation made an application for a fuel rider to cover the increasing costs of fossil fuel. This rider was implemented in November 2005 at 3.98 cents per kWh. The Corporation has applied to continue this rate through to September 30, 2006, when adjustments will be needed based on changed fuel prices.

The Minister has received the final report of the URRC on the corporate revenue portions of the Capital Stabilization Application, and his decision and approach are still pending.

2.1.4 Geographic

Qulliq Energy Corporation serves 26 locations, all but one located north of 60°. There are no roads linking communities, and no energy grid. Nunavut is unique in that it spans 3 time zones and covers approximately 770,000 square miles, or 1/5th of Canada,. Supplies and fuel arrive either by air or by boat in the limited Arctic shipping season.

Outdoor work continues to be necessary for many QEC employees, even as arctic winters and darkness create hardships and hazards. Qulliq Energy delivers electricity to communities under what are arguably the world's harshest environmental conditions.

Using the de-centralized model initiated under the Footprints in New Snow documents, Qulliq Energy has regional offices in Rankin Inlet and Cambridge Bay, its Corporate Headquarters in Baker Lake and an Executive Office and regional centre in Iqaluit.

2.1.5 Environmental

Qulliq Energy Corporation operates in some of the most rigorous environmental conditions of any utility in the world. Weather, distance and darkness generate stresses on employees, assets and equipment. Operating standards tend to be set based on general Canadian conditions and resources, and the expectation of a pristine Arctic often raises the bar. Most Corporation employees and Board Members live and work in their home communities across Nunavut, participate in the traditional economy with its dependence on land and sea, and feel a strong personal commitment to sustainable use.

The original operator at most Nunavut Power sites was the federal crown corporation, the *Northern Canada Power Commission* which had responsibility for generation from 1949 to 1988. After that date operations were managed by the Northwest Territories Power Corporation (NTPC). At the time of division in 2001 the two corporations each agreed to manage environmental issues in their respective territories and to work together to obtain accountability from prior operators.

Qulliq Energy has inventoried its sites for environmental issues, and has a full time Environment officer engaged in prevention and remediation. The Board has taken a strong interest in site remediation, and through the Nunavut Minister of Energy, in coordination with NTPC, and using the Intergovernmental Affairs offices in Ottawa, is active in seeking resolution of contamination issues. The corporation is looking to Canada to take responsibility for site remediation.

2.1.6 Economic

The largest item in QEC's current budget is fuel. All fuel is purchased through the Petroleum Products Division of the GN Department of Community and Government Services. About half of this fuel is purchased and stored by the corporation using PPD as the agent, paying "off the boat" prices. The other half is purchased from PPD throughout the year at GN-set prices. The mixture of these purchasing methods in each community depends on the existence or locations of pipelines and the storage capacity of tanks.

Fuel prices in Nunavut are dependent on the price of crude oil on world markets and the United States versus Canada foreign exchange rate. Fuel price increases at re-supply in the fall of 2005 have been addressed through the rate rider. However, it seems likely that the overall trend in fossil fuel prices will continue to be upward. This suggests the likelihood of continuing fuel riders, to address changes in fuel cost over time.

In the longer term, higher fuel prices will make diverse alternatives to diesel generation more and more viable across Nunavut. Although creating a stressful transition, the long term diversity of generation and supply will eventually be seen as a positive impact of fuel pressures, both economic and environmental.

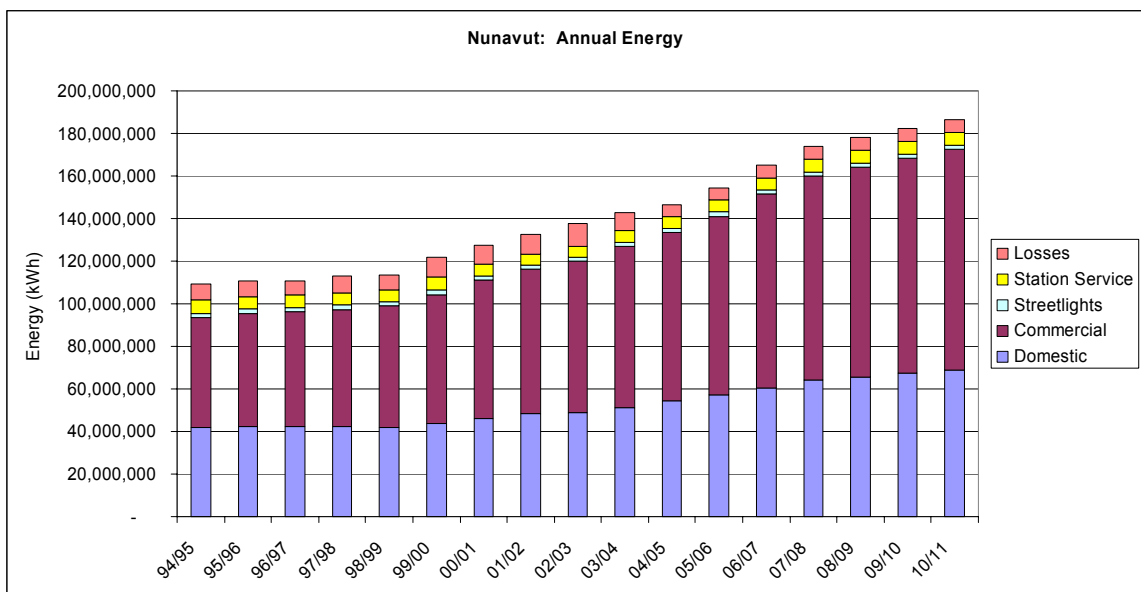
The corporation relies heavily on skilled employees in the communities and on trained accounting and technical staff. Although it is a leader in Nunavut in using the apprenticeship system to bring new workers into the trades, national scale energy projects elsewhere in Canada will continue to draw away skilled workers and trades people at rates and in numbers which will impact on Qulliq Energy's recruiting abilities. This will generate upward pressure in several salary categories, as well as corporation-wide.

In addition, Qulliq Energy continues to look for a funding source to respond to its Article 23 obligations, as the URRC and Minister in the February 2005 recommendations and Instruction did not identify costs associated with these obligations and programs as being part of the corporation’s revenue requirement.

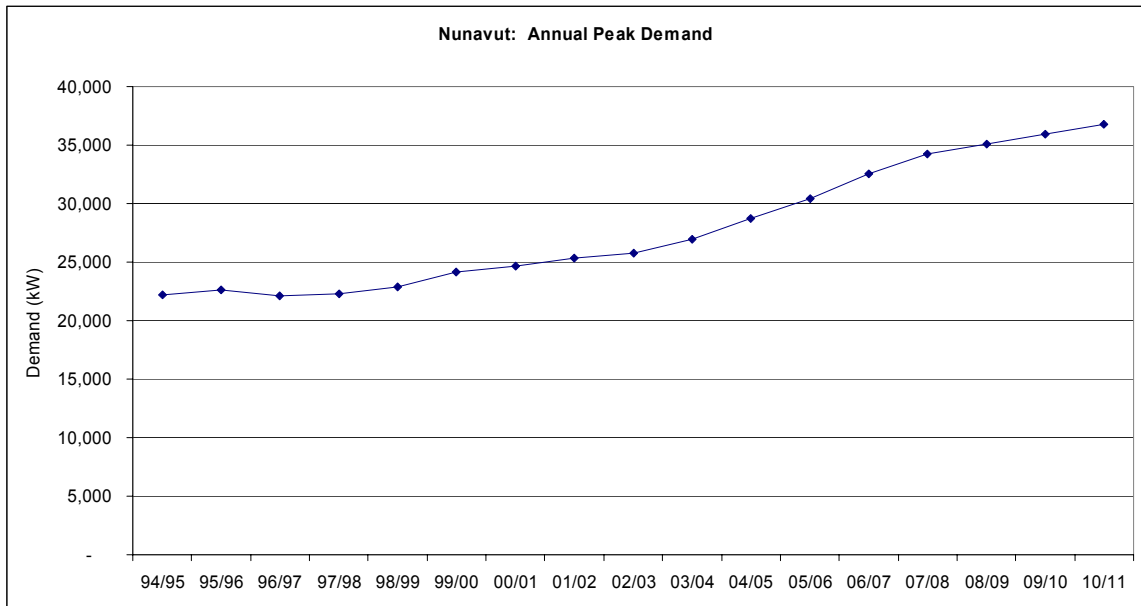
In effect, the corporation has extensive and on-going training obligations without a corresponding revenue source.

2.1.7 Load Growth

The corporation is operating in a time of significant load growth. Across Nunavut departments and municipalities are mobilizing to provide improved infrastructure to Nunavummiut. The Department of Education and the Arctic College are building classroom facilities in some communities, Health and Social Services has improved medical facilities under construction, the Nunavut Housing Corporation requires 3000 new housing units, Economic Development and Transportation requires improved airport facilities in some communities, Justice is building a Courthouse in Iqaluit and correctional facilities, municipalities require community centers, seniors housing, water and sewage treatment facilities. The following graphs depict the predicted load growths for the corporation:



TEN YEAR PEAK DEMAND PROJECTIONS



There is also significant start up activity in the mining sector, which will challenge the ability of the Corporation to respond to resource development activities in communities and to the issues surrounding potential corporate participation. The corporation is investigating opportunities to participate as operator in generation activities in the mining sector and may be developing or proposing such operating relationships in the coming year.

Continuing national dialogue around arctic sovereignty and military activity in Nunavut has the potential to lead to capacity demands and load growth in Nunavut and for Qulliq Energy. In the past, military activity has been accompanied by financial support in return for capacity enhancement and resulting demand delivery guarantees.

These military requirements for energy will be monitored and may eventually be quantified in ways which balance impacts for Nunavummiut and Nunavut Power with the needs of sovereignty projects and resulting demand growth.

2.1.8 Corporate History

Since its inception Qulliq Energy Corporation has been in a process of rapid evolution.

It has taken time to get basic functions and services in place using the decentralized model. It has taken time to develop and gain control of budgets, and to put in place a workforce which responds to the mix of needs unique to the Corporation.

At the same time, the Corporation has been asked to respond to the recommendations in the Ikuma II Report which suggested a new corporate structure, new responsibilities and a significantly altered role in the life of the new territory. Most of the corporation's history and that of its predecessor involve years of quietly providing diesel generation to isolated communities. The new glare of attention and the anticipated role as an energy leader have brought new responsibilities to the Board and managers, all of which have begun to generate change in the Corporation.

Independently of how the Government of Nunavut chooses, in the short or long term, to manage petroleum distribution responsibilities, Qulliq Energy has been given a new direction and role in the economic life of the territory.

Following the GRA hearings of 2004-05, the Qulliq Energy Corporation Board responded to concerns about corporate efficiency by adopting new board structures, reviewing and re-organizing the corporate structure, creating an internal audit function, and working to define Board and corporate structure.

The audited financial statements at the end of 2004-05 demonstrated the benefits of enhanced management scrutiny and effective economic decision making. Without yet receiving the April 1, 2005 rate increases, the corporation

and its employees managed to reduce costs by approximately \$5M, or an amazing \$30,000 per employee

While managers and employees continue to find efficiencies to enhance delivery and reduce cost, it is likely that successive years will see efficiency enhancements at more moderate rates.

In 2005-06 the corporation has instituted month over month financial statements; improved its short term borrowing structures; reduced interest costs; re-negotiated insurance coverage at a more advantageous price; reviewed, reduced and renegotiated commercial leases; restructured its management of residential leases and rates, restructured the IT network band width requirements, giving the corporation a savings of approximately \$24,000 per month alone and consolidated its billing function in Baker Lake. The ultimate cost savings from these and other changes remain to be seen in the 2005-06 audited financials, but the April 2005 projected deficit of 7.9M has been reduced by 2.4M as of December 31, 2005 to a projected deficit of 5.793M.

During this period the Corporation has continued apprenticeship initiatives, advanced plans for alternative energy generation, including hydro-electric generation for Iqaluit, and advanced the creation of the Nunavut Energy Centre: all projects with considerable public support and desirable long term impacts but with no immediate revenue support.

2.2 Critical Issues

2.2.1 Immediate Issues- Accountability

Continuing improvements in financial reporting have ensured that the Board of Directors has the information necessary to continue improving corporate governance, and public and shareholder accountability.

The Corporation is now able to accurately predict and report load growth, operating expenditures, and capital costs, translating this information into annual revenue requirements. The Corporation can provide time The equity position has improved so that there are no longer violations of the debt covenants as previously noted by auditors.

2.2.2 Immediate Issues – Income

The revenue requirement is not yet supported by an appropriate rate structure. The Corporation's approved rates continue to generate less income than both the Corporation and its regulator, the Utility Rates Review Council, acknowledge are required to operate. The corporation continues to predict operating deficits and issues with funds for capital investments.

If this deficit remains unresolved, the corporation will return to experiencing a continuing erosion of equity similar to that experienced from 2001 to 2004.

In an effort to remediate these deficits, the Board, and employees at all levels have initiated a continuous review of procedures and expenditures in order to test expenditures for real value and identify potential efficiencies.

The revenue deficiency will also continue to be addressed on the income side through applications to the Utility Rates Review Council for appropriate funds.

2.2.3 Immediate Issues – Deficits and Subsidies

Energy costs in Nunavut are exceptionally high, notwithstanding that the corporation continues to work to ensure efficiencies in all areas of its operation.

Subsidies may well be a continuing fact of life for Nunavummiut and their government.

These subsidies should be designed and delivered through an effective and targeted system designed to advance public objectives in energy consumption.

Consumer support should not be affected through forcing the energy corporation to continue to incur deficits by holding down prices, thereby

- providing the largest subsidy to the biggest and potentially least-efficient energy consumers;
- hiding the true cost of economic activity and energy consumption;
- losing the impacts of an effective commercially based accountability within the corporation; and, as stated earlier,
- eroding corporate equity in a way which impacts cash flow, capital renewal and borrowing ability.

2.2.4 Immediate Issues – Generation and Conservation Mandate

The Corporation has responsibility to Nunavummiut to advance economically viable renewable energy opportunities.

This is being accomplished through increased efficiencies in its diesel engines, management of fuel facilities and activities to minimize environmental impacts.

The corporation does not have adequate capital to increase new diesel capacity to improve fuel consumption rates nor to maintain existing standards of back-up diesel engine capacity for all Nunavut communities. The corporation has elected, and has identified in its capital budgets as submitted to the Government of Nunavut, to manage capacity risk in Iqaluit, where trades and transportation

resources are most available, in order to continue to provide approved standards of back-up capacity in other Nunavut communities.

In addition the Corporation is engaged in the construction of heat recovery projects, with current work in Iqaluit and Rankin Inlet. The corporation does not have adequate capital to put in place all the heat recovery projects available and desirable in Nunavut. Some of these projects have been budgeted and approved as “zero dollar” 2006-07 projects and funding is being sought from other sources.

The corporation is proceeding with the first year of environmental and social impacts review, monitoring for hydro-electric generation for Iqaluit and a complete feasibility study. The corporation does not have adequate capital to put in place geotechnical testing in 2006-07. This project has been budgeted and approved as “zero dollar” 2006-07 projects and funding is being sought from other sources.

The corporation wishes to initiate a territory-wide survey to determine the most cost effective/fuel displacing projects for alternative generation, including a review of wind opportunities based on initial Nunavut-specific criteria for site selection. The corporation does not have adequate capital to put in place a territorial survey commencing in 2006-07. This project has been budgeted and approved as “zero dollar” 2006-07 project and funding is being sought from other sources.

Assuming a plant life of approximately 50 years, the Corporation should be replacing a plant approximately every 2 years in Nunavut. In the 5 years since division in 2001, QEC has commissioned one new plant. This demonstrates quite clearly that Corporation does not currently have the capital funds to ensure the long-term viability of its plants as the current plant life expectancy has become 125 years. This is not a project where it is likely that external funds will

be found, but QEC will continue to review the parameters on infrastructure funds to determine if plant would fall within one of those funding mandates.

2.2.5 Long term Issues Human Resources

Qulliq Energy has addressed human resource issues since division from Northwest Territories Power Corporation. The corporation has many competent and committed employees from all parts of Canada and the world. There is a need for skilled employees in the trades, in accounting, administration and engineering, and these skills are in very short supply in Nunavut. In order to deliver reliable services today, the Corporation has continued to hire from outside the territory, and has obtained many dedicated and talented employees through this process.

At current levels of Inuit employment (52% at December 2005) Qulliq Energy ranks among the most successful government institutions in supporting and retaining beneficiary employees, but it is still significantly below the target participation levels, and below the levels demonstrated in some well run business and service organizations across the territory.

The Corporation and Board have demonstrated a commitment and a desire to expand apprenticeship programs (in 2005-06, 3 employees of QEC reached journeyman status) and have consistently taken advantage of internship and student employment programs. Active efforts need to continue to draw Nunavummiut into new areas of expertise and skill development.

The long-term ability to achieve the staffing levels mandated in Article 23 of the Nunavut Land Claims Agreement will depend upon Qulliq Energy recruiting and training skilled staff, and continuing to support and encourage beneficiaries to reach their potential.

The most recent employment statistics for the Corporation are attached as an Appendix to this Business plan.

2.2.6 Long Term Issues - Generation and Distribution Infrastructure

The Corporation is facing population driven demands, demands resulting from new infrastructure requirements and demands resulting from requirements to replace aging infrastructure. All of these demands are reflected in the Corporation's load forecast which drives capital expenditures.

Qulliq Energy will continue to plan for the capital expenditures necessary to meet anticipated demand for electricity while exploring demand side management opportunities and energy alternatives.

Each year project reviews will be initiated and the list of tangible and committed renewable energy projects will grow in size and impact. The corporation will use both its capital budget and funds solicited from outside sources to advance the infrastructure goals of Nunavut.

3.0 CORE BUSINESS

3.1 Expressed Mandates

Qulliq Energy has a specific mandate defined by legislation, and specific instructions, received annually from the Government of Nunavut. Included within that mandate is the core business of generation and distribution of energy.

3.1.1 The Legislation

The Qulliq Energy Corporation Act indicates the objects of the Corporation are:

- a) to generate, transform, transmit, deliver, sell and supply energy on a safe, economic, efficient and reliable basis;
- b) to plan and provide for Nunavut's long term needs for affordable energy, taking into consideration Nunavut's desire to enhance energy self reliance and to conserve energy and energy resources;
- c) to purchase, store, process, distribute, deliver, sell and supply petroleum products and other fuels;
- d) to undertake programs to maximize efficiency of fuel and other energy consumption and to provide advice and information to consumers to enable fuel and energy conservation;
- e) subject to the Utility Rates Review Council Act, to set rates and tariffs for energy and services supplied by the Corporation and its subsidiaries; and
- f) to undertake any other activity ordered or authorized by order of the Commissioner in Executive Council

3.1.2 Letter of Expectation addressed to Chair

In April 2005, the Chair of the Board of Directors was provided with this letter by Minister Picco, and a copy was tabled in the Assembly. The Shareholder directed the Corporation to:

- work within the goals identified in the *Pinasuaqtavut - 2004-09* document, using *Inuit Qaujimajatuqangit* principles
- lead the development of an energy strategy for the GN (planned for 06-07)
- move towards energy self-reliance
- develop capital and fuel riders, responding to the Ministerial Instruction resulting from the Utility Rates Review Council report
- develop strong Board oversight, committees and financial capacity
- strengthen the Baker Lake office and billings systems

and specifically to

- enhance financial reporting
- generate Business Plans and projections
- identify lease properties
- work with Finance and the Crown Agencies Council on financial issues

Items accomplished as of January 2006 are identified with a check mark.

3.1.3 Instructions to Deputy Head

Instruction was also provided directly to the President and CEO through a Mandate Letter reviewed by the Board at its June meeting in Baker Lake. The letter contained essentially the same set of instructions.

3.1.4 Environmental Imperatives

The Corporation and its activities are impacted by the provisions of the Kyoto Agreement. Pending implementation decisions by the Government of Canada, the Qulliq Energy Corporation is advancing projects to reduce fossil fuel use, to comply with the terms of the treaty and to attempt to avoid potential penalties.

3.2 CORE BUSINESSES

The core business of the Corporation has not changed since 2005-06

3.2.1 Generate and retail electricity

The Corporation's core business is the generation and distribution of electricity in twenty-five communities in Nunavut. Safety, efficiency and reliability continue to be the standards for these services.

3.2.2 Increase Efficiencies in Current Operations

The business of electricity generation needs to be conducted in a way which is environmentally responsible and economically responsive. This includes:

- Emphasis on safety and environmental responsibility
- Development of heat recovery and distribution system projects
- Attention to fuel efficiencies in both capital and operations phases
- Attention to purchasing, spending and financial management practices

3.2.3 Develop energy resources for economic opportunities

In Nunavut, energy is one of the prerequisites to community or economic development. The Corporation, in partnership with government and communities intends to ensure appropriate participation in economic opportunities, consistent with risk, rewards and supply opportunities.

3.2.4 Develop alternate generation resources

The Corporation, through community dialogue and capital initiatives is committed to planning for and developing alternatives to diesel generation. This is a new phase for QEC and has required a review of engineering capacity, community relationships and long term goals.

3.2.5 Support Nunavummiut in energy conservation

The Corporation intends to advance the core business of supporting Nunavut in energy conservation through two means:

the *Nunavut Energy Center*, approved by the Board as a conservation resource to individuals, businesses, non-governmental organizations and communities is building its capacity in demand side management

the development of a comprehensive energy strategy to lay out a long term vision of energy use in a 5 and 25 year time frame, as contained in both the Letter of Expectation and the Instruction to Deputy Head.

Some resources for these projects will need to be made available through third parties, as they are not the sort of expenditures typical of a utility revenue base. Although initially part of the 2005-06 mandate it will be necessary to find or commit funds to these objectives in 2006-07 and forward.

4.0 PRIORITIES

4.1 Priorities from 2005-06

4.1.1 Safe and Secure Supply

The delivery of a reliable and safe supply of electricity to Nunavut communities is the primary task of the Corporation and underlies all its other goals.

Nunavut Power has an excellent record of reliability in delivering electricity to Nunavummiut, even without taking into account the fact that it has been achieved in the face of extreme weather, incredible distance and limited access. These levels of service need to be supported and maintained. Improvements can be achieved in communicating better with customers in the event of outages and changes to service delivery this issue will be addressed to 2006-07.

4.1.2 Enhanced Accountability

In 2005-06 the financial services of QEC were able to deliver monthly reporting and accountabilities. The corporation managed 16,000 financial transactions a month from a community which does not have a bank.

The Corporation is participating as a founding member of the Canadian Off-Grid Utilities Association in the establishment of benchmarks in common with other similar utilities. This will provide both the corporation and consumers in Nunavut with standards in safety, efficiency, environmental standards and customer relations and assist the Corporation to generate standards and accountability in each of these areas.

In the area of rates and rate structures, the Corporation proposes to continue with a series of external reports, based on the recommendations in the February 2005 report of the Utility Rates Review Council. These include the External Review due to be delivered in February 2006, and a rate averaging and cost of service study.

4.1.3 Capital Initiatives

It is critical that Qulliq Energy, with its counterparts in Nunavut, continue to coordinate energy efficiency projects, load growth demands, energy alternatives developments and fuel supply initiatives.

The approved 2006-07 capital plan, attached as Appendix "C" shows the balancing of these three elements.

4.1.4 Sustainability.

Financial

In each year since 2001, the Corporation has not reached the point where it has adequate income to be financially self sustaining. Significant progress was achieved during 2004-2005 in the reduction of expenses and in increased efficiencies. That progress will continue during 2005-2006, and will be aided by the price increases authorized commencing April 1, 2005.

There continues to be a need for a price increase for 2006-07. The corporation has proposed a number of approaches which would generate a financially healthy corporation, with a moderate price increase. Efficiencies achieved in 2004-05 and 2005-6 have sustained the corporate equity and reduced the extent of the increase required to generate that healthy corporation, but it is clear that capital development has been impacted.

Continuing attention needs to be focused on financial accountability within Qulliq Energy with new efforts to manage expenses, and the monitoring of deficits and expenditures to maintain a healthy debt ratio and appropriate and healthy capital expenditures to advance energy and corporate efficiencies.

Supply

World oil prices will continue to have the potential to significantly impact the Corporation's largest expenditure category, and force prices upward (or permit them to move downward, should we be so fortunate). Additional fuel costs, while outside of the Corporation's control, impact equally on consumers. The corporation will continue to apply for rate riders as fuel prices change.

Alternative Generation

It is essential from both an economic and environmental perspective that QEC and Nunavut move away from dependence on fossil fuel. A survey of potential hydro sites in the area around Iqaluit has been developed in the 2005-06 budget. The survey will focus on determining the availability of opportunities to displace diesel generation with hydro generation to serve Nunavut's largest community.

The corporation has advanced a number of "zero dollar" \$0 budget items. These are projects which are economically or environmentally desirable but are outside of QEC's capacity to fund at current rates. The projects have been approved only to the extent that the corporation can obtain appropriate external funding.

Human Resources

The corporation is taking a long term perspective in developing and sustaining its apprenticeship programs and is initiating work to bring accelerated access to engineering careers. The Corporation will continue to advance opportunities for Inuit employment and for training to bring Inuit participation into all areas of the workforce.

Governance

The Corporation proposes to develop its work in building effective Board structures by continuing the Board training offered in February 2005 through the Office of the Auditor General in Edmonton. In April 2006 Qulliq Energy will co-sponsor a Northern Crown Forum with the Institute on Governance out of Ottawa. CEOs, CFOs, chairs and vice-chairs of Nunavut and Northern Crowns have been invited to participate in sessions designed to enhance board leadership and accountability skills.

If that forum generates desirable and reproducible results, the Corporation will consider repeating the process in the fall with a similarly co-sponsored forum for Board Members generally on the basics of the function and the effectiveness of committees and other Board structures.

5.0 CONCLUSION

Qulliq Energy Corporation continues to operate in a unique environment, in a demanding climate, under difficult conditions for financial success and under significant human resources challenges.

In each of these areas in 2005-06 the Corporation has demonstrated capacity and on occasion, remarkable progress. The transition from an exclusively diesel generation corporation to a modern energy company capable of delivering energy options to Nunavummiut is underway.

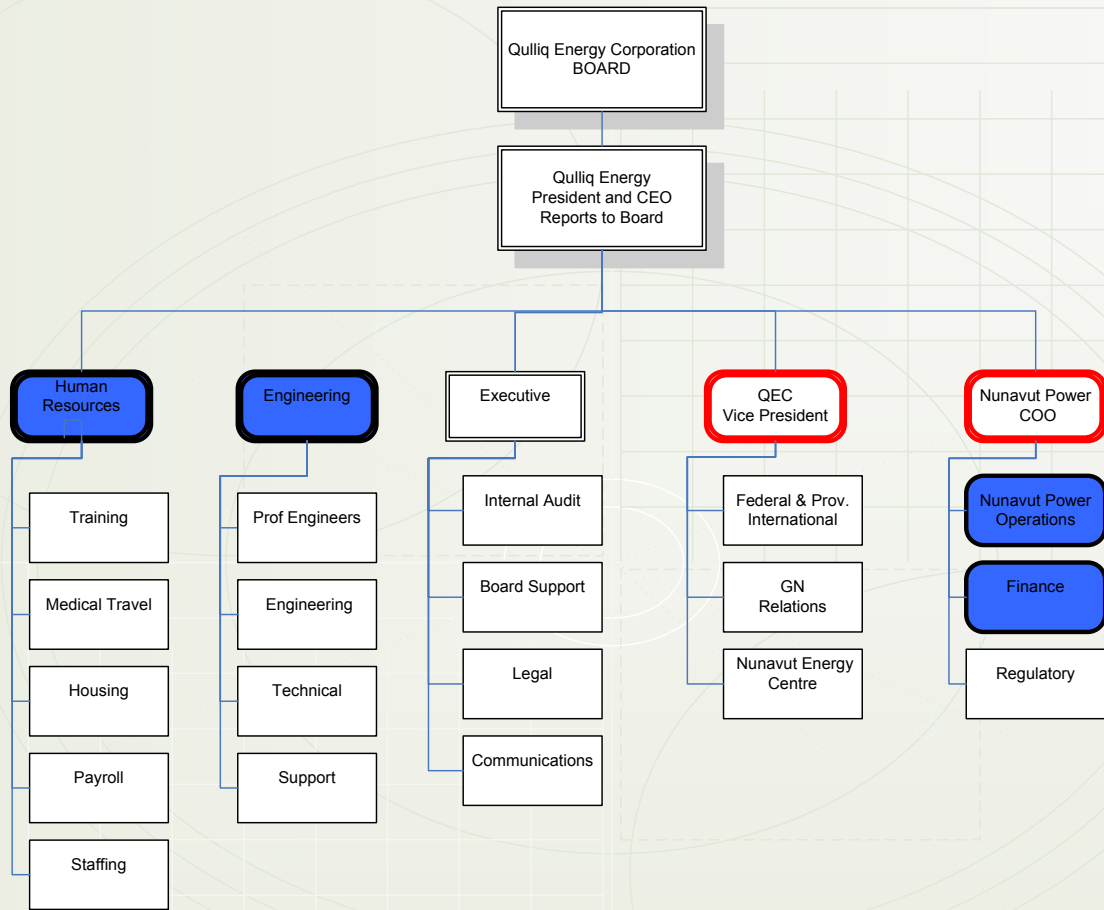
There are still significant changes which can advance the efficiency and responsiveness of Qulliq Energy Corporation and its component businesses, but major change can be seen now and will continue.

More adaptation of generation resources, improved customer service and enhanced internal and external communications are vital and will be part of the focus of the next year.

We feel that Qulliq Energy Corporation is on the path to delivering on options and opportunities envisioned when Nunavut decided to take up its own energy challenge, beginning in April 2001.

Simon Merkosak
Chair
Qulliq Energy Corporation

Appendix A – Organization Structure



Functional reporting structure
Qulliq Energy Corporation
2/27/2006

Appendix B – 2006-2007 Operations Budget

	Finance and Human Resources	QEC Administration	Engineering	Information Technology	Territorial Operations	Qikiqtani Operations	Kivalliq Operations	Kittimeet Operations	Line	Apprentice	Energy Center	Emergency/Adjustment	Total
Revenue													
Sale of power						39,597	17,985	12,392			263		69,974
Other						626	457	188					1,533
FSR											263		71,507
Expenses													
Fuel and lubricants	5	-	2	2	2	16,521	7,037	5,504	24				29,098
Salaries and wages	3,815	1,087	697	494	768	4,472	2,028	1,515	1,608	200	300		16,984
Supplies and services	1,869	520	195	565	337	4,049	1,171	673	1,437	160	200	500	11,676
Amortization	5,800												5,800
Interest expense	4,702												4,702
Travel and accommodation	393	262	220	147	174	906	385	275	343	100	25	(485)	2,745
	16,584	1,870	1,114	1,208	1,281	25,947	10,621	7,968	3,412	460	525	15	71,005
Net (loss) / gain projected	(16,584)	(1,870)	(1,114)	(1,208)	(1,281)	14,276	7,821	4,612	(3,412)	(460)	(263)	(15)	502

Quilliq Energy Corporation
 Operating Budget - 2006-07
 Approved by Board Feb 28/06

Please Note:

No entry is made for the Fuel Stabilization Rider or associated costs.
 FSR Revenue should match funds expended for additional fuel costs.

Quilliq Energy Corporation
 Operating Budget - 2006-07
 Comparison to prior years

	2006-07 Budget	2005-2006 Forecast updated Nov 30/05	2005-2006 Forecast Original	2004-2005 Actual	2003-2004 Actual
Revenue					
Sale of power	69,974	66,088	66,837	54,997	53,337
Other	1,533	1,224	1,181	2,070	1,854
FSR		3,067			
TOTAL	71,507	70,379	68,018	57,067	55,191
Expenses					
Fuel and lubricants	29,098	30,370	28,098	25,049	22,561
Salaries and wages	16,984	16,879	17,012	14,740	17,124
Supplies and services	11,676	11,307	12,076	10,325	12,052
Amortization of Property Plant and Equipment	5,800	5,736	5,736	5,576	5,652
Interest expense	4,702	4,673	4,757	4,291	4,694
Travel and accommodation	2,745	2,575	3,182	2,078	2,559
TOTAL	71,005	71,540	70,861	62,059	64,642
Net (loss) / gain projected for period	502	(1,161)	(2,843)	(4,992)	(9,451)

Appendix C – 2006-2007 Capital Budget

Qulliq Energy
Corporation
2006-2007 Capital Plan
As at March 3, 2006

Plant	Community	Description	Approved
501	Cambridge Bay	Fuel System Upgrade	\$28,000
501	Cambridge Bay	Replace Gen Set	348,500
504	Kugaaruk	Fire Alarm System	32,500
601	Rankin Inlet	Boom Truck	150,000
601	Rankin Inlet	Residual Heat Phase 2	3,200,000
601	Rankin Inlet	Capacity Increase / new compressor	1,500,000
606	Whale Cove	Relocate Fuel Pump	60,000
701	Iqaluit	Distribution Substation	340,000
701	Iqaluit	District Heating System	1,341,000
701	Iqaluit	Distribution System Upgrades/Feeder	170,000
701	Iqaluit	Fuel System Upgrade - Fed. Plant	215,000
701	Iqaluit	Boom Truck Replacement	350,000
701	Iqaluit	Hydro Survey - Environmental	400,000
702	Pangnirtung	Fuel System Upgrade	28,000
702	Pangnirtung	Feeder Upgrade	80,000
704	Resolute Bay	Fuel System Upgrade	28,000
706	Igloolik	Gen Set/plant/switchgear	847,750
707	Hall Beach	Protective Relay Upgrade	100,000
708	Qikiqtarjuaq	New Generating Station	50,000
712	Grise Fiord	New Power Plant	70,000
	Misc	Vehicle's	160,000
602	Baker Lake	District Heating System	Approved at \$0
603	Arviat	District Heating System	Approved at \$0
701	Iqaluit	Hydro Site Feasibility/Geotechnical	Approved at \$0
	All	Contaminated Sites Clean-up	Approved at \$0
	All	Optimal Efficiency Plant Design	Approved at \$0
	All	Alternative Generation Study	Approved at \$0
Total Capital Before Interest and Overhead			\$9,498,750

Appendix D – Statement of Objectives

1. Corporate Objectives Qulliq Energy Corporation Act Statutes of Nunavut, 2003

Objects of Corporation

5. (1) The objects of the Corporation are:
- (a) to generate, transform, transmit, distribute, deliver, sell and supply energy on a safe, economic, efficient and reliable basis;
 - (b) to plan and provide for Nunavut's long term needs for affordable energy, taking into consideration Nunavut's desire to enhance energy self-reliance and to conserve energy and energy resources;
 - (c) to purchase, store, process, distribute, deliver, sell and supply petroleum products and other fuels;
 - (d) to undertake programs to maximize efficiency of fuel and other energy consumption and to provide advice and information to consumers to enable fuel and energy conservation;
 - (e) subject to the *Utility Rates Review Council Act*, to set rates and tariffs for energy and services supplied by the Corporation and its subsidiaries; and
 - (f) to undertake any other activity ordered or authorized by order of the Commissioner in Executive Council.

2. Pinasuaqtavut

Guiding Principles

The employees of the Corporation recognize the Pinasuaqtavut principles are a valuable source of guidance in undertaking the daily activities of generating, distributing and administering the provision of electricity to our customers

Objectives of the Second Legislative Assembly of Nunavut

The Corporation's objectives include and are consistent with the objectives of the Second Legislative Assembly of Nunavut. The Corporation is assisting the Government of Nunavut in achieving those objectives by providing:

- reduced dependency on diesel through heat recovery and distribution systems, and alternative generation planning
- environmental protection and monitoring of fuel purchasing, storage and supply
- beneficiary apprenticeship and internship employment programs that remove barriers to employment

- beneficiary recruitment, retention, education and training programs that remove barriers to employment
- responses and solutions relating to the recommendations of the Office of the Auditor General and Legislative Assembly Standing Committees
- services to the public in Nunavut's languages
- administration of electricity rate subsidy programs for the GN
- capital planning to support territorial and municipal infrastructure improvements
- participation in the implementation of the revised NNI policy, and
- improved accountability and managing in a fiscally responsible manner.

Appendix E



Administration Office
Suite 100, Parnaivik Building
P.O. Box 580
Iqaluit, NU X0A 0H0
Phone: (867) 979-5940
Fax: (867) 979-5950

June 30, 2005

Honourable Edward Picco
Minister of Energy
Legislative Assembly of Nunavut
Box 2410
Iqaluit, NU
X0A 0H0

Dear Minister Picco

Letter of Expectation - Qulliq Energy Corporation (QEC)

Thank you for your Letter of Expectation dated April 28, 2005. The directions provided and priorities established by your letter will most certainly provide me in my capacity as Chairman, the Board of Directors and the senior management of the Corporation with the guidance necessary to align Qulliq Energy's activities with those of the Government of Nunavut.

We recognize that the directions and priorities included in your letter of expectation are intended to complement additional directives and instruction received from you as Minister and the Government of Nunavut.

We also recognize that the priorities established and directions received must remain consistent with the Corporation's mandate as laid out in the *Qulliq Energy Corporation*

Act. As you have directed, should we perceive that any of the priorities are conflicting or conflict with the mandate, we will bring the perceived conflict to the attention of the Deputy Minister, Executive Council.

Pinasuaqtavut: 2004-2009 Priorities

Alternatives to Diesel

The Corporation acknowledges that the Objectives of the Second Legislative Assembly of Nunavut include finding alternatives to diesel fuel for electricity generation. This objective is consistent with object 5. (1) (b) of the QEC Act which includes “taking into consideration Nunavut’s desire to enhance energy self reliance”. These complementary objectives will receive the Corporation’s attention going forward, beginning with the Iqaluit Hydro Study scheduled for fiscal 2005-2006.

The Corporation does face a significant challenge in responding to this mandate as it is not presently staffed nor does it presently have sufficient revenues to continue the sustained and focused effort necessary to implement alternatives to diesel.

If the corporation is to move forward with new initiatives, including some of the policy leadership requested by the Government of Nunavut, there needs to be a dialogue around how these activities can be supported, whether through the rate base or directly from government or third party resources.

The Mandate letter indicates the need to reduce corporate borrowing, and this means that long term development options will need considerable dialogue and attention, most likely in the context of specific environmental or alternative energy opportunities.

Comprehensive Energy Strategy

Your request to the Corporation to work in partnership with the appropriate GN departments and other organizations to develop a comprehensive energy strategy is also consistent with object 5. (1) (b) of the QEC Act which includes “to plan and provide for Nunavut’s long term needs for affordable energy”.

Our understanding of your letter, although it is not specifically stated, is that the Government of Nunavut is assigning the lead role in the development of the comprehensive energy strategy to QEC. The Board appreciates the confidence that has been placed in the Corporation in assigning this task, and anticipates that this priority will be supported with appropriate resources and departmental contributions, as the project moves forward.

Beneficiary Employment

The increasing of beneficiary employment to the representative level mandated by the Nunavut Land Claims Agreement (NLCA) remains a priority with Qulliq Energy. We recognize this and have identified for the Utility Rates Review Council and the public in the recent General Rate Application our commitment to achieving the goals of Article 23 of the Nunavut Land Claims Agreement.

Our beneficiary employment percentage at March 31, 2005 was 52%. During 2005-2006, the Corporation anticipates an increase in the beneficiary employment percentage as the result of several initiatives including the following:

1. The recent completion of a selection camp for diesel mechanic apprentices will result in the hire of four beneficiary diesel mechanic apprentices.
2. In order to establish succession plans for professional staff, three beneficiary accounting interns will be hired in Baker Lake and a safety officer intern in Iqaluit. These interns will be expected to enroll in a combined university degree/professional training program and will be mentored by the Corporation's managers.
3. In order to establish a succession plan for payroll, pensions and benefits administration, two beneficiary interns will be hired in Baker Lake. These interns will be expected to enroll in Canadian Payroll Association, pensions and benefits courses and will be mentored by the Corporation's payroll, pensions and benefits administrators.

These initiatives will be supplemented by a continued focus on the priority hiring policy at the community level which has permitted the Corporation to achieve exceptional levels of Inuit employment to date.

While a credible level of effort towards advancing Inuit employment is possible within what the URRC calls , it also quotes in its report for the position taken at the @005 hearings by NTI which indicates that the primary source for training support should be the Government of Canada through implementation funding.

This contrasts with the provisions of Article 23 which state that there shall be “provision of in-service education assignment and up-grading programs adequate to meet employment goals (23.4.2 (vi))” and “promotion of apprenticeship, internship and other relevant on-the-job training programs (24.4.2(vii)) and “special training opportunities (23.4.2(viii))

To this end we look to your direction and support in either identifying Inuit employment efforts as being rate supported, or in finding or soliciting alternate funding sources.

Corporate Priorities 2005-2006

The following information provides an immediate update on the corporate priorities listed in your letter of expectation.

1. As requested by the Utility Rates Review Council (URRC) and instructed by you, the Corporation filed a capital stabilization fund application in late May. It is important to note that with continued single digit percentage load growth, the 5.648 cents per kWh requested by QEC would allow the Corporation to be self sustaining as a diesel generation utility, providing fuel riders were requested and approved on a timely basis.
2. As requested by the URRC and instructed by you, the Corporation will forecast fuel costs based on the new fuel prices and prepare a fuel rate rider proposal for consideration by the URRC upon receipt of the fuel price increase advisory, including a 5 year fuel forecast as proposed by QEC, in order to support capital planning for the Petroleum Products Division.
3. The Corporation has implemented the authorized Terms of Service, effective April 1, 2005, including the authorized rate increases and the application of interest on overdue accounts effective October 2005.
4. At the same time as the utility billing group was processing the rate increase, as instructed by you, the Corporation determined the impact of the rate increase, revised the 2005-2006 financial forecast and provided the information to the Financial Management Board (FMB) in a timely manner.
5. The Corporation has reviewed the URRC report in detail and as instructed by you, has obtained an independent analysis of the cost and impact of the studies requested by the URRC.

Like the URRC, the consultant who prepared the independent analysis recommended the external review of the Corporation be given the highest priority. The Board of Directors has instructed senior management to prepare a Request for Proposals for completion of this external review before Christmas 2005. A timetable has also been constructed and is attached for your convenience identifying the timeframe for the other recommended reports.

6. With regards to the transition of the Petroleum Products Division (PPD) of the Department of Community and Government Services (CGS), it is the understanding of the Corporation that the transition has been deferred indefinitely. The Board did not have any ambition to take on additional responsibilities during a time when the electricity function was still being developed, but we were ready and willing to support the transfer of the Petroleum Products with the desire of supporting the government's initiatives to advance energy management in Nunavut. In the event that this item is further delayed the Board still feels that effective communication and common planning are important features of the

relationship between QEC and this government function. These need to be addressed and developed.

7. The Board of Directors oversight skills, financial management capacity and ongoing effectiveness have been enhanced by the implementation of a committee structure with the assignment of specific senior managers in supporting roles. Training provided by the Office of the Auditor General (OAG), the appointment of Philip Clark CA to the Board and Chair of the Audit Committee, the hiring of an internal auditor, the activation of the Budget and Finance Committee and the work of the Human Resources and Compensation Committee all generate an active and effective structure. The participation of the Board in significant decisions has been notably enhanced.
8. Corporate capacity in Baker Lake has evolved to include utility billing, financial reporting, general accounting, project accounting, accounts receivable, accounts payable, human resources, payroll, purchasing and information technology support. All of the employees working within these functional groups benefit from the supervision of qualified managers and intern mentoring plans are in place as described in items 2 and 3 under the heading of Beneficiary Employment above.
9. The Corporation has taken steps to ensure compliance with the letter and spirit of applicable GN policies, particularly with respect to human resource policies and practices. For example:
 - The Corporation, prior to the recent round of collective bargaining with the Nunavut Employees Union (NEU), requested a mandate that included provisions to prevent enhancements to QEC employee benefits where those benefits already exceeded those provided to GN employees. As a result, the resulting NEU/QEC collective agreement is now more aligned with the NEU/GN collective agreement.
 - QEC decided not to update the Northwest Territories Power Corporation (NTPC) excluded employee handbook and instead, effectively adopted the GN excluded employee handbook and intends to adopt the new GN excluded employee handbook once it has been issued in final form.
 - The decision to draft a new corporate policies and procedures manual has provided a further opportunity for review of policies and procedures going forward.

Financial Priorities for 2005-2006

During 2005-2006, the Board of Directors will continue to give attention to the financial priorities listed in your letter.

1. Improving the accuracy and timeliness of financial reporting is a Board of Directors and senior management priority. The draft year end financial statements for the year ended March 31, 2005 have already been reviewed by the Board at the June meeting and the year end package has been sent to the OAG. The OAG is presently scheduled to begin the audit on July 18th. As you can see, the Corporation will not be able to achieve the 90 day time line this year. Senior management estimates the OAG will have completed their audit by early August and will sign off in September, with the intention of tabling the Annual Report and Financial Statements at the November session of the Assembly.

The GN should consider amending this legislative requirement to respond to conditions in Nunavut. At this point, our inventory process is still impeded by snow cover in many communities when our audit is due to have been completed in June.

The Board believes that an August 30 deadline (composed of the statutory 90 days plus the 60 day extension under the Financial Administration Act) could potentially be achieved in a year with good inventory and appropriate timing of Office of the Auditor general visits.

2. The Corporation has submitted the Board of Directors approved annual operating and capital budgets within 30 days of their approval, indicating the date the Board motion was passed. QEC is working to prepare and approve the 2006-2007 operating and capital budgets in coordination with time lines developed by the GN Department of Finance.
3. Formal responses to letters of expectation, letters of instruction and Ministerial directives will be prepared in accordance with the time line you have provided.
4. The Corporation's senior engineer recently accepted employment in Alberta and therefore QEC is in the process of recruiting a Director of Engineering whose main focus will be improved planning and implementation of capital projects. Pending the outcome of the Capital Stabilization Fund application, the Corporation may or may not require GN funding for capital projects relating to the existing diesel generation. Regardless, QEC will communicate capital budgets to the GN Department of Finance.
5. The Corporation's billing system is working smoothly after redesigning the utility bill template to accommodate Inuktitut and processing the April 1, 2005 rate increase. The template will be revised going forward in response to customer feedback and future rate changes.
6. The Corporation's borrowings are now in compliance with the current legislation. Whether the debt to equity ratio becomes an issue in the future depends upon the outcome of the Capital Stabilization Fund application.

Continuing losses for Qulliq Energy Corporation will recreate debt issues by eroding equity. The decision to avoid these losses involves increased efficiencies and reduced expenditures (which the corporation continues to pursue), increased income, which is within the control of the Minister and the URRC, or government contributions, which remain within the purview of the Department of Finance and the vote of the Assembly.

The Corporation reviews compliance with this legislative requirement on a regular basis, and will keep you advised as such issues continue to develop.

7. The Corporation will prepare three year Business Plans and Pro-Forma Financial Statements that includes fiscal 2007-2008, 2008-2009 and 2009-2010. This information will be provided in accordance with the requested time line.
8. As noted above, the draft financial statements for the year ended March 31, 2005 have been submitted to the OAG as of June 20, 2005. Upon completion of the audit, the audited financial statements will be provided to the GN Department of Finance within the requested time line.
9. Upon receipt of the observations and recommendations of the Auditor General, the Corporation will prepare a plan of action to address those observations and recommendations. Recognizing that the OAG observations and recommendations are from a historical external audit perspective, the plan of action may include one or more notation(s) that the issue(s) have already been addressed and how.
10. For the 2004-2005 external audit, QEC will submit the OAG's management letter(s) and the Corporation's response(s) to the GN Department of Finance in accordance with your instructions. Having recently hired an internal auditor, going forward, QEC will submit internal auditor management letter(s) and the Corporation's response(s) as well.
11. The Corporation will submit to the GN Department of Finance, a comprehensive listing of leased properties and significant capital assets indicating the length and value of each lease per your request.
12. Prior to entering into any new financing agreements, the Corporation would of course consult with the GN Department of Finance. The Corporation recognizes that all new debt must be approved by the GN. QEC also recognizes that the GN has debt cap issues that require resolution and has no desire or intent to aggravate the situation.
13. The Corporation will continue to work with the GN Department of Finance and Crown Agency Council to address any outstanding financial and policy issues, We would appreciate your indication of any specific issues pending at this time.

As requested, documentation will be forwarded to you and to the Crown Agency Council at the Department of Finance in an electronic format.

We recognize the role Qulliq Energy Corporation plays in enhancing the social, economic and environmental well-being of Nunavut. We appreciate that the Corporation may have taken longer than expected to respond effectively to the expectations of both the Board and the sole shareholder. As Chair, and speaking for Board Members, we have struggled to build a viable Nunavut-oriented corporation and have enjoyed the work, acknowledging that there have been successes and more difficult times.

Thank you for the detailed documentation of the Government of Nunavut's expectations of Qulliq Energy Corporation and for your continuing counsel and support.

Yours sincerely,

ORIGINAL Signed BY

Simon Merkosak
Chairman
Board of Directors
Qulliq Energy Corporation

cc. Honourable Paul Okalik, Premier
Honourable David Simailak, Chairman, Crown Agency Council
Honourable Louis Tapardjuk, Minister of Human Resources
Ms. Anne Crawford, CEO, Qulliq Energy Corporation



Administration Office
Suite 100, Parnaivik Building
P.O. Box 580
Iqaluit, NU X0A 0H0
Phone: (867) 975-3000
Fax: (867) 975-3024

June 30, 2005

Honourable Edward Picco
Minister of Energy
Legislative Assembly of Nunavut
Box 2410
Iqaluit, NU
X0A 0H0

Dear Minister Picco

Letter of Expectation - Qulliq Energy Corporation (QEC)

Thank you for your Letter of Expectation dated April 28, 2005. The directions provided and priorities established by your letter will most certainly provide me in my capacity as Chairman, the Board of Directors and the senior management of the corporation with the guidance necessary to align Qulliq Energy's activities with those of the Government of Nunavut.

We recognize that the directions and priorities included in your letter of expectation are intended to complement additional directives and instruction received from you as Minister and the Government of Nunavut.

We also recognize that the priorities established and directions received must remain consistent with the Corporation's mandate as laid out in the *Qulliq Energy Corporation Act*. As you have directed, should we perceive that any of the priorities are conflicting or conflict with the mandate, we will bring the perceived conflict to the attention of the Deputy Minister, Executive Council.

Pinasuaqtavut: 2004-2009 Priorities

Alternatives to Diesel

The Corporation acknowledges that the Objectives of the Second Legislative Assembly of Nunavut include finding alternatives to diesel fuel for electricity generation. This objective is consistent with object 5. (1) (b) of the QEC Act which includes “taking into consideration Nunavut’s desire to enhance energy self reliance”. These complementary objectives will receive the Corporation’s attention going forward, beginning with the Iqaluit Hydro Study scheduled for fiscal 2005-2006.

The Corporation does face a significant challenge in responding to this mandate as it is not presently staffed nor does it presently have sufficient revenues to continue the sustained and focused effort necessary to implement alternatives to diesel.

If the corporation is to move forward with new initiatives, including some of the policy leadership requested by the Government of Nunavut, there needs to be a dialogue around how these activities can be supported, whether through the rate base or directly from government or third party resources.

The Mandate letter indicates the need to reduce corporate borrowing, and this means that long term development options will need considerable dialogue and attention, most likely in the context of specific environmental or alternative energy opportunities.

Comprehensive Energy Strategy

Your request to the Corporation to work in partnership with the appropriate GN departments and other organizations to develop a comprehensive energy strategy is also consistent with object 5. (1) (b) of the QEC Act which includes “to plan and provide for Nunavut’s long term needs for affordable energy”.

Our understanding of your letter, although it is not specifically stated, is that the Government of Nunavut is assigning the lead role in the development of the comprehensive energy strategy to QEC. The Board appreciates the confidence that has been placed in the Corporation in assigning this task, and anticipates that this priority will be supported with appropriate resources and departmental contributions, as the project moves forward.

Beneficiary Employment

The increasing of beneficiary employment to the representative level mandated by the Nunavut Land Claims Agreement (NLCA) remains a priority with Qulliq Energy. We recognize this and have identified for the Utility Rates Review Council and the public in

the recent General Rate Application our commitment to achieving the goals of Article 23 of the Nunavut Land Claims Agreement.

Our beneficiary employment percentage at March 31, 2005 was 52%. During 2005-2006, the Corporation anticipates an increase in the beneficiary employment percentage as the result of several initiatives including the following:

1. The recent completion of a selection camp for diesel mechanic apprentices will result in the hire of four beneficiary diesel mechanic apprentices.
2. In order to establish succession plans for professional staff, three beneficiary accounting interns will be hired in Baker Lake and a safety officer intern in Iqaluit. These interns will be expected to enroll in a combined university degree/professional training program and will be mentored by the Corporation's managers.
3. In order to establish a succession plan for payroll, pensions and benefits administration, two beneficiary interns will be hired in Baker Lake. These interns will be expected to enroll in Canadian Payroll Association, pensions and benefits courses and will be mentored by the Corporation's payroll, pensions and benefits administrators.

These initiatives will be supplemented by a continued focus on the priority hiring policy at the community level which has permitted the Corporation to achieve exceptional levels of Inuit employment to date.

While a credible level of effort towards advancing Inuit employment is possible within what the URRC calls, it also quotes in its report for the position taken at the @005 hearings by NTI which indicates that the primary source for training support should be the Government of Canada through implementation funding.

This contrasts with the provisions of Article 23 which state that there shall be "provision of in-service education assignment and up-grading programs adequate to meet employment goals (23.4.2 (vi))" and "promotion of apprenticeship, internship and other relevant on-the-job training programs (24.4.2(vii)) and "special training opportunities (23.4.2(viii))

To this end we look to your direction and support in either identifying Inuit employment efforts as being rate supported, or in finding or soliciting alternate funding sources.

Corporate Priorities 2005-2006

The following information provides an immediate update on the corporate priorities listed in your letter of expectation.

1. As requested by the Utility Rates Review Council (URRC) and instructed by you, the Corporation filed a capital stabilization fund application in late May. It is important to note that with continued single digit percentage load growth, the 5.648 cents per kWh requested by QEC would allow the Corporation to be self sustaining as a diesel generation utility, providing fuel riders were requested and approved on a timely basis.
2. As requested by the URRC and instructed by you, the Corporation will forecast fuel costs based on the new fuel prices and prepare a fuel rate rider proposal for consideration by the URRC upon receipt of the fuel price increase advisory, including a 5 year fuel forecast as proposed by QEC, in order to support capital planning for the Petroleum Products Division.
3. The Corporation has implemented the authorized Terms of Service, effective April 1, 2005, including the authorized rate increases and the application of interest on overdue accounts effective October 2005.
4. At the same time as the utility billing group was processing the rate increase, as instructed by you, the Corporation determined the impact of the rate increase, revised the 2005-2006 financial forecast and provided the information to the Financial Management Board (FMB) in a timely manner.
5. The Corporation has reviewed the URRC report in detail and as instructed by you, has obtained an independent analysis of the cost and impact of the studies requested by the URRC.

Like the URRC, the consultant who prepared the independent analysis recommended the external review of the Corporation be given the highest priority. The Board of Directors has instructed senior management to prepare a Request for Proposals for completion of this external review before Christmas 2005. A timetable has also been constructed and is attached for your convenience identifying the timeframe for the other recommended reports.

6. With regards to the transition of the Petroleum Products Division (PPD) of the Department of Community and Government Services (CGS), it is the understanding of the Corporation that the transition has been deferred indefinitely. The Board did not have any ambition to take on additional responsibilities during a time when the electricity function was still being developed, but we were ready and willing to support the transfer of the Petroleum Products with the desire of supporting the government's initiatives to advance energy management in Nunavut. In the event that this item is further delayed the Board still feels that effective communication and common planning are important features of the relationship between QEC and this government function. These need to be addressed and developed.

7. The Board of Directors oversight skills, financial management capacity and ongoing effectiveness have been enhanced by the implementation of a committee structure with the assignment of specific senior managers in supporting roles. Training provided by the Office of the Auditor General (OAG), the appointment of Philip Clark CA to the Board and Chair of the Audit Committee, the hiring of an internal auditor, the activation of the Budget and Finance Committee and the work of the Human Resources and Compensation Committee all generate an active and effective structure. The participation of the Board in significant decisions has been notably enhanced.
8. Corporate capacity in Baker Lake has evolved to include utility billing, financial reporting, general accounting, project accounting, accounts receivable, accounts payable, human resources, payroll, purchasing and information technology support. All of the employees working within these functional groups benefit from the supervision of qualified managers and intern mentoring plans are in place as described in items 2 and 3 under the heading of Beneficiary Employment above.
9. The Corporation has taken steps to ensure compliance with the letter and spirit of applicable GN policies, particularly with respect to human resource policies and practices. For example:
 - The Corporation, prior to the recent round of collective bargaining with the Nunavut Employees Union (NEU), requested a mandate that included provisions to prevent enhancements to QEC employee benefits where those benefits already exceeded those provided to GN employees. As a result, the resulting NEU/QEC collective agreement is now more aligned with the NEU/GN collective agreement.
 - QEC decided not to update the Northwest Territories Power Corporation (NTPC) excluded employee handbook and instead, effectively adopted the GN excluded employee handbook and intends to adopt the new GN excluded employee handbook once it has been issued in final form.
 - The decision to draft a new corporate policies and procedures manual has provided a further opportunity for review of policies and procedures going forward.

Financial Priorities for 2005-2006

During 2005-2006, the Board of Directors will continue to go give attention to the financial priorities listed in your letter.

1. Improving the accuracy and timeliness of financial reporting is a Board of Directors and senior management priority. The draft year end financial statements for the year ended March 31, 2005 have already been reviewed by the Board at

income, which is within the control of the Minister and the URRC, or government contributions, which remain within the purview of the Department of Finance and the vote of the Assembly.

The Corporation reviews compliance with this legislative requirement on a regular basis, and will keep you advised as such issues continue to develop.

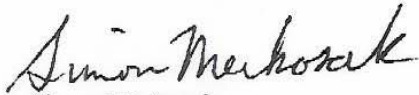
7. The Corporation will prepare three year Business Plans and Pro-Forma Financial Statements that includes fiscal 2007-2008, 2008-2009 and 2009-2010. This information will be provided in accordance with the requested time line.
8. As noted above, the draft financial statements for the year ended March 31, 2005 have been submitted to the OAG as of June 20, 2005. Upon completion of the audit, the audited financial statements will be provided to the GN Department of Finance within the requested time line.
9. Upon receipt of the observations and recommendations of the Auditor General, the Corporation will prepare a plan of action to address those observations and recommendations. Recognizing that the OAG observations and recommendations are from a historical external audit perspective, the plan of action may include one or more notation(s) that the issue(s) have already been addressed and how.
10. For the 2004-2005 external audit, QEC will submit the OAG's management letter(s) and the Corporation's response(s) to the GN Department of Finance in accordance with your instructions. Having recently hired an internal auditor, going forward, QEC will submit internal auditor management letter(s) and the Corporation's response(s) as well.
11. The Corporation will submit to the GN Department of Finance, a comprehensive listing of leased properties and significant capital assets indicating the length and value of each lease per your request.
12. Prior to entering into any new financing agreements, the Corporation would of course consult with the GN Department of Finance. The Corporation recognizes that all new debt must be approved by the GN. QEC also recognizes that the GN has debt cap issues that require resolution and has no desire or intent to aggravate the situation.
13. The Corporation will continue to work with the GN Department of Finance and Crown Agency Council to address any outstanding financial and policy issues, We would appreciate your indication of any specific issues pending at this time.

As requested, documentation will be forwarded to you and to the Crown Agency Council at the Department of Finance in an electronic format.

We recognize the role Qulliq Energy Corporation plays in enhancing the social, economic and environmental well-being of Nunavut. We appreciate that the Corporation may have taken longer than expected to respond effectively to the expectations of both the Board and the sole shareholder. As Chair, and speaking for Board Members, we have struggled to build a viable Nunavut-oriented corporation and have enjoyed the work, acknowledging that there have been successes and more difficult times.

Thank you for the detailed documentation of the Government of Nunavut's expectations of Qulliq Energy Corporation and for your continuing counsel and support.

Yours sincerely,



Simon Merkosak
Chairman
Board of Directors
Qulliq Energy Corporation

- cc. Honourable Paul Okalik, Premier
Honourable David Simailak, Chairman, Crown Agency Council
Honourable Louis Tapardjuk, Minister of Human Resources
Ms. Anne Crawford, CEO, Qulliq Energy Corporation

Appendix F

December 2005 Inuit Employment Statistics

Employment Summary, by Category Does not include Casuals

	Total Positions			Beneficiaries	
	Total Positions	Vacancies	% Capacity	Hired	% IEP
Executive Senior Management	4	1	75%	2	67%
Management Middle	4	0	100%	0	0%
Professional	15	1	93%	2	14%
Paraprofessional	43	7	84%	8	22%
Administrative Support	41	3	93%	24	63%
	49	5	90%	38	86%
Total Department	156	17	89%	74	53%

Employment Summary, by Community

Arctic Bay	200	2	0	100%	1	50%
Qikiqtarjuaq	205	2	1	50%	1	100%
Cape Dorset	210	2	0	100%	1	50%
Clyde River	215	2	0	100%	2	100%
Grise Fiord	220	2	0	100%	2	100%
Hall Beach	225	2	0	100%	2	100%
Igloolik	230	2	0	100%	2	100%
Iqaluit	235	62	6	90%	18	32%
Kimmirut	240	2	0	100%	1	50%
Nanisivik	245	0	0		0	
Pangnirtung	250	2	0	100%	2	100%
Pond Inlet	255	2	0	100%	2	100%
Resolute Bay	260	3	0	100%	2	67%
Sanikiluaq	265	2	0	100%	1	50%
Arviat	300	2	0	100%	2	100%
Baker Lake	305	29	4	86%	14	56%
Chesterfield Inlet	310	2	0	100%	2	100%
Coral Harbour	315	2	0	100%	1	50%
Rankin Inlet	320	12	2	83%	6	60%
Repulse Bay	325	2	1	50%	1	100%
Whale Cove	330	2	0	100%	2	100%
Bathurst Inlet	400	0	0		0	
Umingmakotok	405	0	0		0	
Cambridge Bay	410	10	2	80%	2	25%
Gjoa Haven	415	2	0	100%	2	100%
Kugluktuk	420	2	0	100%	2	100%
Kugaaruk	425	2	1	50%	1	100%
Taloyoak	430	2	0	100%	2	100%

Ottawa	604	0	0	0
Churchill	601	0	0	0
Winnipeg	602	0	0	0

Total Community	156	17	89%	74	53%
------------------------	------------	-----------	------------	-----------	------------

Employment Summary, By Headquarters & Region

Headquarters	29	4	86%	14	56%
Region	127	13	90%	60	53%

TOTAL	156	17	89%	74	53%
--------------	------------	-----------	------------	-----------	------------