YUKON ENERGY
2012 Business Plan

December 2011

TABLE OF CONTENTS

2011 REVIEW/2012 PREVIEW

This business plan outlines the goals and strategies for Yukon Energy for 2012 and reflects the Corporation's budgeting to achieve those goals. It also gives a summary of our 2011 major initiatives and a look ahead to 2012.

Yukon Energy's primary focus in 2011 was a continuation of our 2010 work of improving system reliability while moving ahead with projects/concepts to ensure there is enough clean electricity available to meet the growing demand. There was also an emphasis on engaging with Yukoners to help create a clean energy future for the territory.

Reliability

Almost three years ago, Yukon Energy embarked on an aggressive capital maintenance schedule that saw approximately two-thirds of our core capital budget go towards projects related to reliability. In 2011 we continued to work our way through a list of maintenance capital projects. While we had slightly more controllable outages on our Whitehorse-Aishihik-Faro transmission system in 2011 than in the previous year (11 in 2011 compared to nine in 2010) our trend over the longer term is improving (we had 12 controllable outages in 2009 and 19 in 2008). The good news for 2011 is that of the 11 controllable outages, none of them resulted in a grid-wide black-out. This shows the success of the modifications we have been making to our protection system. As the number of customers affected by an outage decreases, so does the amount of time required to restore power.

On our Mayo-Dawson grid we experienced eight controllable outages, compared with nine the previous year. We did have an unfortunate number of uncontrollable outages on our northern grid, mostly as a result of heavy snow and lightning strikes. However even those numbers were down from 2010 (13 uncontrollable outages in 2011 compared with 19 the previous year). While there is little we can do about weather-related outages, we will continue to work hard to decrease controllable outages throughout the territory.

One initiative that will help address reliability is our Computerized Maintenance Management System that we are phasing in starting in 2012. This tool will improve our ability to plan for, budget, and schedule equipment maintenance on a daily to multi-year basis.

Meeting Demand

Yukon Energy is planning for the future in ways that will ensure a secure and continuous supply of energy that is sustainable, affordable and clean. Our goal is to meet the growing demand for electricity with clean, preferably renewable energy. To that end, we pursued a number of initiatives in 2011 that are already enhancing or will enhance our infrastructure. Each initiative is outlined below.

Mayo B

The Mayo B hydro project involved building a new powerhouse 3.7 kilometres

downstream from the existing hydro plant. Construction of Mayo B began in June 2010. In December 2011 it was tied into the territory's transmission grid and is now providing clean and renewable electricity to Yukoners. Mayo B increases our capacity to generate clean power at the existing site from 5 megawatts to 15 megawatts, without the need for a new dam or reservoir. It offsets several million dollars worth of diesel each year and reduces greenhouse gas emissions by about 25,000 tonnes annually.

Mayo B created more than 60 direct jobs for Yukoners and provided spin-off benefits to approximately 120 Yukon businesses. Close to $12 million was spent in Yukon as a result of this project including labour, materials and supplies. Of that amount, close to $2 million was spent in the Village of Mayo.

The Mayo B project was completed on time and within budget ($120 million). Contributions came from the federal government's Green Infrastructure Fund ($53.35 million), the Yukon Development Corporation, the Yukon government and through an investment by the First Nation of Na-Cho Nyak Dun (combined total of $30.14 million), and from electrical customers ($36.5 million). The cost to ratepayers will be spread over the lifetime of the project (50+ years).

Carmacks-Stewart Transmission Project – Stage 2

In June 2011, Stage 2 of the Carmacks to Stewart Crossing transmission line was completed. It involved building a new 138 kv transmission line from Carmacks to Stewart Crossing in the Central Yukon (approximately 172 kilometres long), with a spur line to the Minto mine. Completing Stage 2 has allowed us to connect our northern and southern grids. Having one integrated transmission system has given us the ability to better manage our power.

Stage 1 of the project, from Carmacks to Pelly Crossing and a spur to the Minto mine, was completed and energized in November 2008. This allowed us to provide the mine and the community of Pelly Crossing with surplus hydro power (previously both were on diesel). It has led to reductions in greenhouse gas emissions of between 25,000 and 30,000 tonnes per year.

The cost of Stage 2 was approximately $40 million, with $17.65 million of that coming from the federal government's Green Infrastructure Fund and the rest from the Yukon Development Corporation.

The transmission line project resulted in substantial economic benefits for Yukon. It's estimated that approximately 200 Yukoners worked on Stage 1 of project in one way or other, with a similar number involved in Stage 2 of the project directly or indirectly.

Aishihik 3

This is another of our hydro enhancement projects completed in 2011. Adding a seven megawatt hydro generator to the Aishihik hydro facility (which until December 2011 had two 15 megawatt hydro generators) has allowed us to use our plant more efficiently, since it has given us the ability to produce more power using less water. This new unit will save Yukoners $1 million or more per year in diesel costs and reduce greenhouse gas emissions by an estimated 3,800 tonnes annually.

Enhanced Storage Concept Studies

Yukon Energy is committed to optimizing our existing hydro infrastructure before developing new hydro projects. To this end, there are a number of enhancement concepts

we are examining that could increase production at our Whitehorse, Mayo and Aishihik hydro facilities. These include increased storage ranges in the Southern Lakes (Marsh, Tagish and Bennett) and Mayo Lake, which together could increase the winter output of our Whitehorse and Mayo hydro facilities by 11 gigawatt hours per year on average. This is the energy equivalent of displacing approximately $2.5M-$3.0M of diesel generated electricity annually. Diverting water from Gladstone Creek into Aishihik Lake would allow more power to be produced at our Aishihik plant; up to 30 gigawatt hours per year increase in renewable energy production could result.

In 2011, Yukon Energy continued engaging with local stakeholders, First Nation governments and the general public on these potential projects. In particular, we held workshops and public meetings with residents of Mayo, Marsh Lake and Tagish to share results from our field studies and to determine information gaps where more research is needed. Our focus for the Gladstone Diversion Concept in 2011 was mainly to work with the Kluane, Champagne and Aishihik First Nations to begin heritage and traditional use studies. We also collected additional water flows and lake elevation data.

New Medium and Small Hydro

Yukon Energy is exploring the next generation of new hydro development projects (i.e. 2012 to 2020 time frame). This includes possible sites on the upper reaches of the Pelly River (between 10 and 80 megawatts and up to 500 gigawatt hours a year) and in the area of Moon Lake and Tutshi/Windy Arm in the Southern Lakes region (up to 12 megawatts and up to 70 gigawatt hours a year).

In 2011 we looked at potential sites on the Upper Pelly River to gather hydrological data. We also investigated the potential to develop small hydro sites at Moon Lake and Tutshi/Windy Arm. We will follow up in 2012 by collecting water flow information on the Upper Pelly, Moon and Tutshi Lakes.

Wind

We continue to look for ways of using wind as a part of our clean energy complement. Yukon Energy has completed an assessment of the wind regime on Tehcho (formerly Ferry Hill) near Stewart Crossing. The results are positive enough that we are now seriously looking at the feasibility of building up to a 20 megawatt wind farm on the site. In 2011 wind monitoring equipment was installed at Tehcho. We will use this equipment over the next one to two years to collect data that will help us determine if a wind farm is viable in the Tehcho area.

In 2011 we also did some wind mapping in the Haines Junction area, and we completed an assessment of the wind regime at Mt. Sumanik, another site we are considering for a wind farm. The data showed Mt. Sumanik wind regimes are similar to those at Tehcho.

Geothermal

Because Yukon is located in an area of the Pacific known as the Ring of Fire, the potential is good for finding significant geothermal resources that could be used to produce electricity.

In 2011 we planned to do further drilling at Jarvis Creek near Haines Junction, following good results from some early research. However we were unable to secure a drilling rig due to the mineral exploration boom underway, so instead we focused on assessing potential sites in the Stewart Crossing/Mayo and Whitehorse regions. Early results show there is good geothermal potential in these areas, although much more work is needed before a decision could be made as to whether one or more geothermal plants would be feasible.

In 2012 we will collect additional temperature data in the Whitehorse area.

Waste-to-Energy

In 2011 Yukon Energy continued the work started in 2010 looking at the possibility of using municipal waste to produce electricity and district heat. We believe this process could allow production of up to two megawatts of electricity year-round, using waste from Whitehorse area landfills and possibly supplemented with mill waste or other surplus wood material.

There are a number of issues that still must be addressed, including how to maintain continued emphasis on recycling and waste diversion, ensuring all harmful emissions will be removed to air emission/control standards, and finding local uses for the valuable steam and waste heat available from a waste-to-energy facility.

In October 2011 we hosted a workshop that allowed Yukoners to learn more about this idea. The feedback from the public will be invaluable to us as we continue to explore this potential energy option.

Biogas

Yukon Energy began a study in 2011 on the potential of using organic matter (food, brewery spent grains, waste cooking oil, slaughterhouse waste and sewage sludge) to produce a methane rich gas known as biogas. This process would complement the waste-to-energy process and could produce in the range of 1,600 megawatt hours of electricity a year. The organic waste would be taken from the City of Whitehorse's compost collection program.

Biomass

Another concept Yukon Energy is assessing for a possible energy source is to use fire kill and beetle kill wood, along with waste from sawmills, to produce electricity and district heat. In June 2011, Yukon Energy had a biomass preliminary energy evaluation done. The report identified biomass resources within a 250 kilometre radius of Whitehorse that could potentially provide the feedstock required to maintain a 25 megawatt electrical generating facility for 20 years.

Subsequent to that report, however, stakeholders and members of the public attending a Yukon Energy-sponsored workshop on this issue asked us to look at smaller scale biomass options instead. In partnership with the Alsek Renewable Resource Council, the Village of Haines Junction, and the Champagne and Aishihik First Nations, we are now

assessing the viability of a smaller plant in the Haines Junction area.

Liquefied Natural Gas

In 2011, Yukon Energy began assessing the feasibility of using liquefied natural gas (LNG) as a transition source of energy for power and district heat. LNG is less expensive than diesel and produces fewer greenhouse gas emissions. The idea would be to use LNG in the short term until new clean and preferably renewable sources of energy can be developed. We will continue to investigate this potential option in 2012.

District Heat

The benefits of any thermal project in Yukon, whether it be waste-to-energy, biomass, biogas or liquefied natural gas, can only be fully realized if use can be made of the waste heat that is produced as a by-product of this form of generation. In 2011, Yukon Energy – in partnership with the City of Whitehorse and the Yukon government – began work on a feasibility study assessing the potential of a district heat system in Whitehorse. The work is examining areas of potential load and energy sources to supply the system with heat. The study will be completed in 2012.

Energy Conservation & Efficiencies

Energy conservation is a crucial element in helping us meet Yukon's growing electricity needs. In August 2011 Yukon Energy created an Energy Conservation department, to work with Yukon Electrical Company Limited, the Yukon government, and other stakeholders to develop a territory-wide energy conservation and efficiency plan. The new department is also helping Yukon Energy find ways of reducing our own energy use.

The energy conservation plan is expected to be ready for implementation in 2013. In the meantime, Yukon Energy is acting now to help reduce the amount of electricity Yukoners use.

In 2011 we did research on Light Emitting Diode (LED) streetlights in Dawson City, with positive results. The research shows that the annual energy used by the traditional High Pressure Sodium streetlights in approximately 416 kilowatt hours per light, compared with only 150 kilowatt hours per LED streetlight, a savings of 64 percent.

However the cost of the technology is still high and we would like to do further testing of the lights. In 2012 we will experiment with several different types of LED streetlights to determine which will be the best for our northern needs.

In the summer of 2011 we partnered with Alexco Resource Corporation to do an audit of their mine site near Keno. We'll continue working with Alexco in 2012 to implement some of the suggested energy saving measures. We will conduct similar initiatives with other Yukon mines and we will work with the City of Whitehorse to audit their facilities. Audits are a great way to identify opportunities for savings and start to plan for a conservation based future.

Yukon Energy is looking at our own operations as well with an eye to conserving energy. In 2011 we completed an audit of our Whitehorse and Dawson City office and plant buildings and we are prioritizing actions that will increase the efficiency of our facilities. Yukoners will be able to follow our progress on our website (www.yukonenergy.ca). Also on our website, customers can also find our new energy calculator that can be used to determine where a home uses energy and how to take advantage of potential savings.

In 2012 we'll continue the work we started in 2011 to better understand how Yukoners use electricity and what potential exists for us to reduce that use. All customer input gathered through stakeholder meetings, an energy conservation workshop, community tours, and ongoing qualitative research will be taken into account when preparing the energy conservation plan.

Opportunities in 2011 for Yukoners to learn how to take charge of their own energy usage included a Dollars to Sense course, a Yukon-wide tour with the Ottawa-based group OneChange, and a children's camp organized and presented in partnership with the Yukon Conservation Society. In 2012 we will work with the Department of Education, community leaders, and major commercial customers to extend learning opportunities to new audiences.

Independent Power Producers/Net Metering

Yukon Energy is working with Yukon Electrical Company Ltd. and the Yukon government on Independent Power Producers (IPPs) and net metering policies. Work will continue in 2012 on these initiatives. When implemented, a net metering policy will allow customers to generate their own clean electricity and reduce the amount of power they buy from a utility. An IPP policy will enable Yukon Energy to buy power from private sources and support the development of Yukon's renewable economy.

Net Metering Solar Project

Yukon Energy began work in 2011 on a net metering solar pilot project. We selected a site for the demonstration project (the Whitehorse Rapids Fishladder) and ordered the solar panels and related equipment. The system will be installed at the fishladder during the summer of 2012. It will serve two purposes: to help power the ladder's visitor reception building, and to allow us to test run the steps other Yukoners will need to take if they wish to generate renewable power and send a portion of it back to Yukon Energy's grid. We will also monitor the amount of solar generation produced.

Stewardship & Biodiversity

Yukon Energy is proud of our commitment to environmental stewardship and biodiversity. In cooperation with our partners the Yukon Fish and Game Association and the Yukon government, we maintain one of the world's longest fishladders. It not only provides passage for migrating Chinook salmon beyond the Whitehorse dam, but offers opportunities for scientific and cultural information gathering and sharing. Last year, 1,534 salmon passed through the ladder, compared to 672 in 2010.

Yukon Energy, in partnership with the Yukon government, operates an important fish hatchery on the Yukon River in Whitehorse. For the third year in a row, the hatchery was able to support a Ta'an Kwäch'än First Nation initiative to re-introduce Chinook salmon to Fox Creek by providing salmon eggs for the program.

In 2012, Yukon Energy will evaluate the potential to participate in salmon habitat enhancement activities with the Carcross/Tagish First Nation.

Yukon Energy, in cooperation with the First Nation of Na-cho Nyak Dun, has two fish and fish habitat enhancement studies underway that will continue in 2012 on the Mayo River.

As part of the Mayo B project, a salmon rearing channel will be constructed on the Mayo River in 2012. The nearly 1,000 metre long channel will provide high quality rearing habitat for juvenile Chinook salmon as well as resident fish species throughout the year.

Climate Change

During the summer of 2011 Yukon Energy hired scientists from the Northern Climate Exchange at Yukon College to gather information on the expected impacts of climate change on the glaciers that feed our hydro systems. We also asked them to make recommendations about what we should do to better prepare for any changes in flow from glaciers.

The scientists gathered information through satellite and aerial photographs and verified it through work on the ground. They then compared it with historical data. Their report will be submitted to us in 2012.

Some of our staff will also receive training that will help them better understand climate change science, and provide them with tools that can be used when doing current and future resource planning.

In 2012, we will begin a three year study that looks in more detail at the effects of climate change on the Southern Lakes area. Partners for this project include Yukon College's Northern Climate Exchange, the University of Alberta and the Yukon Geological Survey.

Energy Charrette

As part of our priority to engage Yukoners, we are changing the way we involve First Nation and other local governments, stakeholders and the Yukon public in our project-specific and longer term resource planning. Previously public involvement began once a decision was made to move forward on a specific project or a resource plan was finalized and ready for filing with the Yukon Utilities Board.

It is now corporate practice to engage Yukoners at the concept stage of a project so that we can all work together to identify issues, research priorities and opportunities for project collaboration.

One of the first concrete examples of this approach was a three-day charrette we hosted in March 2011. Close to 100 Yukoners along with national and international energy experts came together to talk about how to meet the territory's future energy needs. The purpose of the charrette was to educate the participants, help inform Yukon Energy's updated 20-year Resource Plan, develop guiding principles for energy decision making and to find out how Yukoners want to be involved in planning Yukon's energy future. We also held discussions in three rural Yukon communities, and input from those meetings was included as part of the charrette process.

That event was followed up by a series of one-day workshops that focused on individual energy options identified at the March charrette as having the most potential for the territory. There were two such workshops in 2011: one on waste-to-energy and the other on biomass, with more planned for 2012.

20-Year Resource Plan Update

As was mentioned in the previous section, Yukon Energy is in the midst of revising our 20-Year Resource Plan, last updated in 2006. We are using the early engagement approach in developing this document. The energy charrette and subsequent workshops have provided a great deal of fodder in helping us with this plan. A draft is expected to be ready for public review and input in the first half of 2012. Once it is finalized it will be filed with the Yukon Utilities Board for review.

First Nations Relations

Yukon Energy devoted considerable time in 2011 working to develop a comprehensive plan to engage Yukon First Nations on renewable energy projects within their traditional territories. Partnering with the Yukon Indian Development Corporation and the Council of Yukon First Nations, we held a two day First Nations energy forum, which brought together representatives from First Nation governments and Development Corporations, along with other interested parties, to explore business opportunities in clean energy.

There was great discussion and a general agreement that this forum was a good first step. There was a request for continued dialogue and sharing of information on the topic of energy in the territory, and an overall sense that First Nation governments and Development Corporations are interested in exploring potential energy-related projects that would be a good investment for them.

Yukon Energy signed agreements in 2011 with several First Nations, including members of the Kaska Dena Nation and the Champagne and Aishihik First Nations, to share information and work together on possible energy initiatives.

Public Opinion Surveys

As part of Yukon Energy's on-going public education work, we completed another set of public and stakeholder opinion surveys in 2011 (the first survey was done in June 2010). The initial surveys were designed to find out what Yukoners knew and believed about the Corporation. The findings helped us design a public awareness campaign to give people a better understanding about Yukon Energy, what we are trying to achieve, and why.

Following the campaign a second round of phone and internet surveys was done to gauge whether the public's knowledge about Yukon Energy had changed. The results indicated an increased awareness about energy issues and specifically about Yukon Energy's operations. However there was a slight decline in the level of confidence that Yukon Energy could effectively plan and develop clean energy sources for future needs. In response, we developed a public information campaign to provide concrete information about the work we are doing to find new clean energy sources. That campaign will continue into 2012 and when it concludes more public surveys will be done to measure the impact.

Safety

Yukon Energy's excellent safety record continued in 2011. Yukon Energy employees have worked nearly five years without a lost time incident. This safety record is a testament to our employees' high standard of safe work practices.

The final phase of the implementation of the Certificate of Recognition (COR) requirement for contractors will take effect July 1, 2012. After that date, any contractor bidding on construction work for us will need to provide proof of COR as a tendering or bidding requirement.

Also in 2012, Yukon Energy will be required to undergo an independent external maintenance audit. This audit is a requirement as part of the COR program. The COR is issued to employers who develop and implement health and safety programs that meet established standards set out by the Northern Safety Network and the Yukon Workers' Compensation Health and Safety Board.

Construction projects were the main focus of our safety field work in 2011. There were no serious injuries on the Mayo B project, Yukon Energy's largest capital project last year.

Human Resources

Yukon Energy employs approximately 90 employees. We recognize our corporate vision can only be achieved with a strong, competent and professional workforce. To maintain and enhance the skills needed to achieve our business objectives, we continually strive to:

- attract, recruit and retain a competent work force that shares our values and is motivated to help sustain and improve the company's assets;
- offer our employees opportunities for professional development to ensure a high level of skill, expertise and leadership; and
- ensure succession planning and the transfer of critical knowledge.

Recognition and Congratulations

We would like to recognize and congratulate our 2011 Long Service Award recipients:

40 Years

Ed Chaplin

25 Years
Ken Sawyer

20 Years
Darrell Johnson

15 Years
Attila Janits

10 Years
Shelley Dixon
Steve Milner
Ed Mollard
Jim Petelski

5 Years
Austin Osborne
Maureen Thompson

Apprenticeship Program
Yukon Energy's apprenticeship program is an important part of our human resource strategy in meeting some of our labour needs for both the present and future. It is rewarding to see the program progress since implementation just a few short years ago.

In addition to the formal apprenticeship program, the Corporation established an in-house initiative to recognize the Control Centre Operators who demonstrated a commitment to continued learning. The program consists of a series of on-line learning modules and a minimum of three years on the job work experience.

Congratulations to the following employees for successfully completing their apprenticeship requirements in 2011:

- Al Porter – Power Systems Electrician
- Steve Blysak – Systems Control Centre Operator
- Mike Hannah - Systems Control Centre Operator
- Myles O'Brien - Systems Control Centre Operator

New Department
Yukon Energy established an energy conservation department in 2011 to work with stakeholders on Yukon-wide energy conservation and efficiency programs. This department will also help the Corporation find ways of reducing our own energy use. Energy conservation is an important element in helping us meet Yukon's growing energy needs.

Wellness
Yukon Energy recognizes the benefits of a healthy workforce and we promote a healthy and active lifestyle for our employees. In 2011, more than 52 percent of the employees used the company's wellness subsidy program. This is a 20 percent increase from 2010.

Board of Directors

Jason Bilsky was appointed to Yukon Energy's Board in January 2011. As well, long time board member Pat Irvin was reappointed for another three year term.

COMPANY PROFILE

Yukon Energy is incorporated under the *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a crown of the Yukon government. We generate, transmit, and distribute electrical energy in Yukon.

Yukon Energy was established in 1987 and now supports almost 15,000 electricity customers. Distribution to these customers is shared with Yukon Electrical Company Ltd.

Yukon Energy has the capacity to generate approximately 132 megawatts of power. Ninety-two megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 37 megawatts at Aishihik and 15 megawatts at Mayo), 39 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy has approximately 90 employees located in Whitehorse, Faro, Mayo and Dawson City.

MANDATE

Yukon Energy plans, generates, transmits and distributes a continuing and adequate supply of cost-effective, sustainable, clean and reliable energy for customers in Yukon.

VISION

Yukon Energy has a vision for Yukon's energy future that embraces the social, economic and environmental needs of all Yukoners. Every decision we make is driven by that vision.

VALUES

- Respect – we will operate with respect for one another
- Team Work – we will foster a team based approach to all of our challenges
- Integrity – we will act with integrity at all times

STRATEGIC PRIORITIES

Optimize system reliability and efficiency

Priorities include:

- Continue to implement operational training and staff development plans to enhance the integration of the Mayo-Dawson and Whitehorse-Aishihik-Faro grids.
- Continue to implement operational plans for the Aishihik plant that incorporate the addition of the Aishihik third turbine into the system.
- Continue to implement new operational protocols for the operation and integration of the Mayo B hydro project into the generation system.
- Continue the operational review of systems efficiencies and implement capital upgrades that support system reliability.
- Improve system reliability to meet national standards and decrease controllable outages on the new integrated grid by 50 percent in 2012.

Develop clean energy solutions to meet forecast demand

Priorities include:

- Bring into service new supply projects that will provide at least 100 GWh/yr. of clean energy by the end of 2014.
- Acquire grant funding or new methods of risk financing to enable Yukon Energy to plan for new projects without a requirement for equity returns or ratepayer risk.
- Procure financing that will enable Yukon Energy to build the projects and mitigate ratepayer risk over the long-term.
- Continue to plan for the future and take steps and undertake work that will allow Yukon Energy to protect the opportunity to build new projects by 2014.
- Complete the development of a strategy and partnership plan to build new energy projects with Yukon First Nation partners.
- Continue with our ongoing series of public discussions on energy challenges and technology opportunities that will support Yukon Energy's commitment to meaningful public engagement on energy planning.
- Make decisions on which projects to build and arrange preliminary financing by the 1st Quarter of 2012.
- Work with the Yukon government regarding policy initiatives; specifically the IPP and Net Metering Policies currently being developed.

Implement an Energy Conservation/Efficiency (Demand Side Management) Program

Priorities include:

- Complete the Conservation Potential Review Study commissioned in 2011. Examine the data and set priorities for Demand Side Management work.

- Establish measurable targets and costing techniques needed to measure the success of the Demand Side Management programs.
- Continue to implement Demand Side Management pilot programs and assessment work to ensure that action on reducing demand is well underway during 2012.
- Work with industrial partners to complete energy audits and follow up to ensure efficiencies are implemented as appropriate.
- Deliver a public education program though training programs, public outreach campaigns and specific school based initiatives.
- Work with community partners to develop and deliver specific focused demand reduction programs on a community-by-community basis.

Secure project capital financing

Priorities include:

- Identify sources of existing funding for both project planning and project construction.
- Establish a framework for financing new generation projects to mitigate risk that includes long-term capital contributions and financing support.
- Establish a fund that will reduce the risk to ratepayers for the necessary planning costs required to build an inventory of available generation and transmission projects.

MAJOR 2012 INITIATIVES

Based on the four strategic priorities, Yukon Energy's major projects for 2012 are as follows:

- Various equipment and system improvements/replacements including:
  - Mayo A substation enhancements
  - Whistle Bend subdivision supply
- Planning for new generation – hydro, wind, LNG, waste-to-energy, biomass, geothermal and district heat
- General Rate Application
- Energy Conservation/Efficiency program
- Financial Information System and Maintenance System

As part of our commitment to provide safe, reliable service, Yukon Energy will once again in 2012 make the maintenance, improvement, or replacement of our existing infrastructure and equipment a high priority. Plans for 2012 include upgrades to both our generation and transmission assets and include such things as improvements to our Wareham Lake spillway, Mayo headgate, Whitehorse spillway, and overhauls to our two larger Aishihik hydro generators and two of our diesel generators in Dawson City.

One of our largest capital projects in 2012 will be the enhancements to our existing Mayo A hydro substation. This will involve replacing aging equipment at the substation and will lead to improved reliability on the Mayo-Dawson transmission line.

Another major capital project for the coming year involves making upgrades at our existing Takhini substation so that we can supply power to the soon to be built Whistle Bend subdivision. This is both a customer driven project and a reliability one, as the initiative will allow us to make some improvements to our protection system, which will limit outages to smaller areas and permit more rapid restoration times.

Yukon Energy is looking at all possible options to ensure there is enough clean electricity available to meet the growing demand. Our work in 2012 will focus on hydro (enhancements and new), wind, biomass, waste-to-energy, liquefied natural gas, and geothermal. We will continue engaging governments, stakeholders and the public as we work to determine the most viable options for Yukon's energy future.

Yukon Energy expects to be in front of the Yukon Utilities Board (YUB) in 2012 for a General Rate Application. We will also be submitting to the YUB an updated 20-Year Resource Plan and an Energy Conservation Plan.

Also on our list for 2012 is the implementation of a new Financial Information System and a Computerized Maintenance Management System. Along with providing us with improved financial, inventory, and procurement functions, it will also give us a

computerized maintenance management tool. This will insure that our assets receive the appropriate maintenance at the appropriate time.

ECONOMIC OUTLOOK

The Yukon economy continues to benefit from low interest rates and strong commodity prices. Unemployment rates remain one of the lowest in the country – 6.3 percent in February 2012 versus national average of 7.4 percent. This is largely driven by activity in the minerals industry; 2011 exploration work totaled a record $300 million, almost double the 2010 total of $157 million (which was also a record). Forecasts for 2012 growth remain cautious due to high uncertainty in the world economy. The slow growth in the U.S., high household debt and the European debt crisis are some of the factors contributing to this uncertainty. The Bank of Canada expects national growth in the neighbourhood of two percent.

From a forecasting perspective, management is fairly conservative in estimating growth for the company. Sales analysis is based on historical load growths with some adjustment for known variables (e.g. addition of large industrial or commercial customers). Downside risk to sales forecasts relates to weather and uncertainty with regard to industrial loads (with respect to connection dates for new customers and planned expansions for existing customers). On the expense side, labour and non-labour expenses for operations are variable with the level of maintenance activity planned for the year. With an increased focus on reliability, upward pressure on these areas is being experienced. Administrative expenses are driven by various factors including increased regulatory activities, whether voluntary (e.g. GRA) or not (environmental permitting). As well, there is a trickle-down effect from increased activities on operations (i.e. increasing staff levels and spending affects workloads in IT, Human Resources, Communications and Finance). The large generation supply and transmission projects also put a great deal of stress on administrative processes due to their complexity, risk and unique reporting requirements.

PLANNING ASSUMPTIONS

The following sections summarize management's planning assumptions by major budget category:

I) Revenues

Forecasting revenue from electricity sales requires different techniques depending on the type of sales. For example, native loads (i.e. wholesale, residential, commercial, street lights) are fairly predictable with annual increases in a narrow range generally between one percent and three percent. The greatest factor affecting the variability of these classes of revenue is weather. Industrial sales generally relate to the activities of a few customers so forecasting is done at the individual level (there are currently two customers in this class: Minto and Alexco). Secondary sales is determined based on availability of surplus hydro (service to secondary sales customers is interruptible when generation by surplus hydro is not available). Service to this class of customers has been terminated effective September 1, 2010 due to low reservoir levels. Reservoir levels are not forecast to recover sufficiently to permit resumption of secondary sales electricity deliveries in 2012.

a) Firm Wholesale Sales

Our largest category of sales representing about 65 percent of total revenue dollars. This category is expected to contribute 296 GWh to sales in 2012, which is about five GWh or 1.7 percent higher than the 2011 sales.

b) Industrial Sales

For 2012, this class includes two customers: the Capstone Mining Corporation's copper mine at Minto is in its fourth year of connection to our grid. For 2012, we forecast the mine to consume 40 GWh of electricity. This estimate is significantly higher than 2011 consumption of 32 GWh and reflects mine management's intent to expand to underground mining operations in 2012 and increase mill throughput. Alexco Resource Corp. continues to actively mine the Keno district; 2012 forecast sales are 13.1 GWh, up from 2011 consumption of 11.4 GWh.

c) Residential/General Service/Streetlights

Yukon Energy has firm retail customers in Faro, Mayo and Dawson as well as a number of smaller communities on the Whitehorse-Aishihik-Faro portion of our grid. Retail customer sales are expected to remain fairly flat for 2012.

d) Secondary Sales

In 2011 secondary sales were available in September and October due to planned hydro and transmission line outages resulting in the sale of 0.5 GWh. There are no secondary sales forecast for 2012.

II) Expenses

a) Fuel

Total fuel expense for 2012 is forecast at $1.98 million. In prior years, this budget item was set based on short term forecasts for the year in question. As continued growth on the system depletes available hydro capacity, the utility is once again approaching diesel on the margin. This in turn will see the reactivation of the Diesel Contingency Fund and requires Yukon Energy to adopt a longer term view

of fuel expense. As a transition move, the 2012 fuel budget is set at about 60 percent of long term average fuel expense.

b) Labour

Labour expense for 2012 is expected to increase about $0.8 million over 2011 budgets. The budget assumes 2.25 percent economic increase; as well management is proposing to increase the employee complement in the 2012 fiscal year to include the following positions:

Manager, Energy Conservation
Energy Conservation Administrator
Financial Analyst

c) Non-labour

Non-labour operations and maintenance expense increases are largely attributed to increased reliability-related costs as well as regulatory requirements.

III) Cash flows/financing

Aggressive capital plans will continue to strain the cash requirements for Yukon Energy. Timing of capital spending, turnover on federal funding receivables and forecast market financing rates will be monitored by Yukon Energy and, in conjunction with our parent the Yukon Development Corporation, a financing strategy will be developed early in the new year.

Yukon Energy Corporation
2012 Business Plan
Balance Sheet
($000s)

	Actual		BP	FYF	BP
	2009	2010	2011	2011	2012
Current Assets					
Cash and Short Term Investments	10,731	25,847	2,160	3,268	55
Accounts Receivable	9,714	29,281	3,984	17,968	7,737
Inventories	2,715	2,648	2,540	2,830	2,830
Prepaid Expenses	394	368	412	614	666
Total Current Assets	23,554	58,144	9,096	24,680	11,289
Customer contribution financing	17,424	17,424	-	-	-
Deferred uninsured losses	111	432	423	632	570
Diesel contingency fund	887	891	916	916	946
Property, Plant and Equipment					
Cost	297,272	378,203	473,864	482,318	508,030
Accumulated Depreciation	(84,355)	(90,833)	(99,949)	(98,430)	(108,655)
Cost less accumulated depreciation	**212,917**	**287,370**	**373,915**	**383,888**	**399,374**
Deferred revenue - gain on fixed assets destroyed in fire	(7,086)	(6,816)	(6,546)	(6,546)	(6,276)
Contributions for Extension	(50,229)	(133,887)	(161,050)	(172,767)	(170,725)
	(57,316)	**(140,703)**	**(167,596)**	**(179,313)**	**(177,001)**
Total Property, Plant and Equipment	**155,601**	**146,667**	**206,319**	**204,575**	**222,374**
Deferred Charges	11,451	19,083	28,758	24,129	27,952
Total Assets	**209,028**	**242,641**	**245,512**	**254,933**	**263,130**
Current Liabilities					
Accounts Payable	6,620	16,642	14,024	24,218	7,218
Construction Financing	25,000	47,500	45,000	11,808	12,739
Current portion of long term debt	3,783	3,864	3,876	4,930	5,738
	35,403	68,006	62,900	40,956	25,696
Faro mine dewatering deferral revenue	398	398	398	398	398
Long-term pension liability	1,036	1,174	937	1,174	200
Reserve for site restoration	5,008	4,764	4,903	4,754	4,954
Total Current Liabilities	6,441	6,336	6,237	6,326	5,552
Diesel Contingency Fund	887	1,131	916	916	946
Deferred Credits	(0)		-		-
Long-term Debt	105,092	101,448	108,158	121,272	136,267
Shareholder's Equity					
Share Capital	39,000	39,000	39,000	39,000	39,000
Repayment of Capital					
Contributed Surplus				14,600	14,600
Retained Earnings	22,205	26,720	28,301	31,862	41,070
Total Shareholder's Equity	61,205	65,720	67,301	85,462	94,670
Total Liabilities & Shareholder's Equity	**209,028**	**242,641**	**245,512**	**254,933**	**263,130**

Yukon Energy Corporation
2012 Business Plan
Statement of Earnings and Retained Earnings
($000s)

	Actuals 2009	Actuals 2010	BP 2011	FYF 2011	BP 2012
Revenue	32,109	32,376	33,215	34,480	39,549
	32,109	32,376	33,215	34,480	39,549
Labour	7,662	7,721	8,592	8,418	9,377
Non Labour					
Operations and maintenance	3,058	3,046	3,564	3,514	3,867
Administration	2,597	2,483	2,961	2,686	3,151
Depreciation (Schedule # 1)	5,049	5,253	5,630	5,494	5,513
Amortization (Schedule # 1)	2,285	1,508	1,469	1,344	3,511
Insurance	787	787	838	786	835
Other taxes	288	290	302	297	312
Fuel	815	1,145	1,415	2,708	614
Purchased power	37	37	40	38	40
Total operating expenses	22,578	22,270	24,811	25,285	27,220
Earnings from operations	9,531	10,106	8,404	9,195	12,329
Other (income) expenses					
Interest on Long Term Debt (Schedule # 1)	6,894	7,023	3,861	4,650	4,630
Other Interest Income	(1,165)	(1,238)	-	(309)	-
AFUDC	(392)	(514)	(1,752)	(535)	(500)
Regulatory loss	65	58	-	248	-
	5,402	5,329	2,109	4,054	4,130
Net earnings	4,129	4,777	6,295	5,142	8,199
Opening retained earnings	21,777	21,943	22,005	26,720	30,535
Net earnings	4,129	4,777	6,295	5,142	8,199
Contributions/(Dividends)	(3,963)	-	-		2,336
Closing retained earnings	21,943	26,720	28,300	31,862	41,070
Return on Equity					

Yukon Energy Corporation
2012 Business Plan
Income Statement Supporting Schedule # 1
Notes to the Statement of Income and Retained Earnings
($000s)

		Actual		BP	FYF	BP
1	**Depreciation**	**2009**	**2010**	**2011**	**2011**	**2012**
	Depreciation on Fixed Assets	7,215	7,369	8,227	7,610	10,225
	Amortization on Customer Contributions	(1,896)	(1,846)	(2,327)	(1,846)	(4,442)
	Deferred Gain on Fixed Assets Destroyed	(270)	(270)	(270)	(270)	(270)
		5,049	**5,253**	**5,630**	**5,494**	**5,513**
2	**Amortization**					
	Regulatory Costs	1,009	177	89	94	1,095
	Relicencing	505	548	530	470	593
	Study Costs	608	683	722	612	1,543
	Deferred Overhauls	-	-	-	46	-
	Dam Safety Costs	13	-	28	20	24
	Uninsured Losses	150	100	100	100	257
		2,285	**1,508**	**1,469**	**1,344**	**3,511**
3	**Interest Expense**					
	YDC Note	1,405	1,300	-	-	-
	YDC Annual Advances	971	1,197	-	-	-
	Operating Line Interest	60	163		817	49
	External Financing for Minto Loans	1,159	1,133	-	-	-
	TD-Canada Trust Note	535	479	375	371	180
	YDC Flex Term Note	1,742	1,759	-	-	-
	YDC Mayo/Dawson Flexible Financing	1,022	993	-	-	-
	YDC $82 million Loan	-	-	3,486	3,461	3,428
	YDC Capital Program Financing					
	Mayo B loan in 2011	-	-	-	-	11
	New Loan in 2012	-	-	-	-	962
		6,894	**7,023**	**3,861**	**4,650**	**4,630**

Yukon Energy Corporation
2012 Business Plan
Sales and Revenue Summary

Energy Sales (GWh):		Actual 2009	Actual 2010	BP 2011	FYF 2011	BP 2012
Residential		11.0	11.4	11.6	12.7	12.3
Commercial		17.6	21.2	20.4	21.3	21.7
Industrial		32.0	30.2	42.8	43.3	52.3
Lighting		0.3	0.3	0.3	0.3	0.3
Secondary		24.1	10.2	-	-	-
Sales to YECL		263.3	276.3	277.1	291.1	296.0
Total	(a)	348.3	370.9	352.2	362.4	382.6

Revenue ($,000)		Actual 2009	Actual 2010	BP 2011	FYF 2011	BP 2012
Residential		1,386	1,359	1,380	1,654	1,803
Commercial		2,696	2,942	2,735	3,150	3,582
Industrial		3,190	3,311	4,770	4,599	6,179
Lighting		63	77	75	84	92
Secondary		1,441	644	-	46	-
Wholesale		18,279	18,902	18,953	21,940	24,562
Revenue riders		4,874	4,944	5,130	2,753	-
Dewatering Revenue		-	-	-	-	-
Mine Trust Transfer		-	-	-	-	-
GRA Increase		-	-	-		3,147
Total electricity sales revenue	(b)	31,928	32,179	33,042	34,226	39,365
Other revenue		181	197	173	255	184
Total operating revenue		32,109	32,376	33,215	34,480	39,549
Average Rate (Cents/KWh)	(b/a)	9.2	8.9	9.4	9.4	9.4

Yukon Energy Corporation
2012 Business Plan
Generation Summary
(GWh)

	Actual		BP	FYF	BP
WAF System	**2009**	**2010**	**2011**	**2011**	**2012**
Whitehorse Hydro	222.4	233.8	236.9	227.1	229.2
Aishihik Hydro	119.4	111.7	103.1	128.8	120.9
Diesel	1.6	2.7	1.3	5.6	4.4
Wind	0.4	0.1	0.1	0.3	0.2
Total WAF System	343.8	348.3	341.4	361.8	354.8
Mayo System Hydro	29.3	31.6	34.3	23.4	58.8
MD Diesel	0.3	2.4	7.6	8.1	2.4
Total Generation	373.4	382.3	383.2	393.3	415.9
Annual Change %	8.6	2.4	0.2	2.6	5.7
Total Generation (GWh)					
Hydro	371.1	377.1	374.3	379.3	408.9
Diesel	1.9	5.1	8.8	13.7	6.7
Wind	0.4	0.1	0.1	0.3	0.2
Total	373.4	382.3	383.2	393.3	415.9
Source of Generation (%)					
Hydro	99.4	98.7	97.7	96.4	98.3
Diesel	0.5	1.3	2.3	3.5	1.6
Wind	0.1	-	-	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0