



**YUKON  
ENERGY**

Annual Report 2017





# table of contents

<b>2</b>	President's Welcome
<b>4</b>	Vision, Mission, Values
<b>5</b>	2017 Board of Directors
<b>6</b>	Yukon Energy By the Numbers
<b>10</b>	Our Customers
<b>13</b>	Our Staff
<b>18</b>	Strategic Priorities
<b>21</b>	Key 2017 Capital Projects
<b>23</b>	Health and Safety
<b>25</b>	Sustainability
<b>28</b>	Supporting Our Communities
<b>30</b>	Management Discussion and Analysis
<b>33</b>	Financial Statements

# president's welcome

I am pleased to present the 2017 Yukon Energy Annual Report.

This was a year of highs and lows for the Corporation. On the positive side, we celebrated our 30th anniversary, marking this milestone with a series of public events. We were also honoured to become the first northern utility, and only the fifth in Canada, to receive a Sustainable Electricity Company™ designation from the Canadian Electricity Association.

However it was also a difficult year for us, after the sudden deaths of two of our employees and a third former staff member who had only recently retired. While none of the deaths occurred on the job, it does not make the loss any less tragic.

Through it all, our team of professional and dedicated employees and Board of Directors continued to work extremely hard to serve Yukoners every day. We strive for excellence in everything we do...from delivering affordable, reliable and sustainable power to attracting and retaining a skilled and engaged workforce and to our respect for the environment and for the communities and people we serve.

We hope you see these values reflected in this 2017 annual report.



**Andrew Hall**  
President and CEO





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In 2017, Yukon Energy staff, management, and board members were involved in an exercise to update the company's mission, values, and vision. We believe these statements better reflect our philosophy, goals and aspirations.

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## vision

To establish a sustainable legacy for Yukon's future

## mission

To enable Yukon's prosperity with sustainable, cost-effective and reliable electricity

## values

Safety

Accountability

Continuous Improvement

Teamwork

Professionalism

Good Corporate Citizenship

# 2017 board of directors



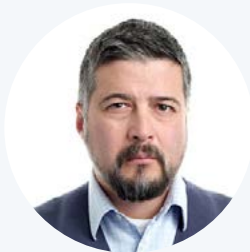
Kells Boland, *Chair*



Susan Craig



Joanne Fairlie



John Jensen



Cam Malloch



Clint McCuaig



Wendy Shanks



Curtis Shaw



Erin Stehelin

📷 2017 Board of Directors members. *Christian Kuntz Photography*

## Audit Committee

Erin Stehelin, *Chair*

Kells Boland

Cam Malloch

Wendy Shanks

Curtis Shaw

## Human Resources and Compensation Committee

Wendy Shanks, *Chair*

Kells Boland

Susan Craig

John Jensen

Clint McCuaig

## Planning and Governance Committee

Kells Boland, *Chair*

Erin Stehelin

Wendy Shanks

Clint McCuaig

Susan Craig

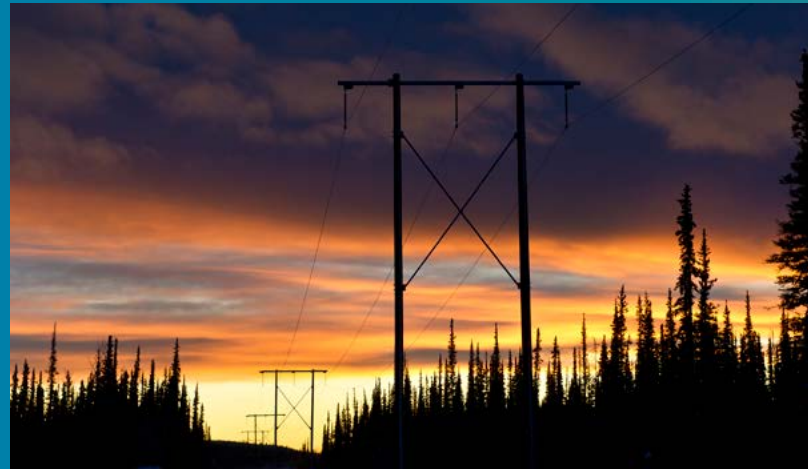
Cam Malloch



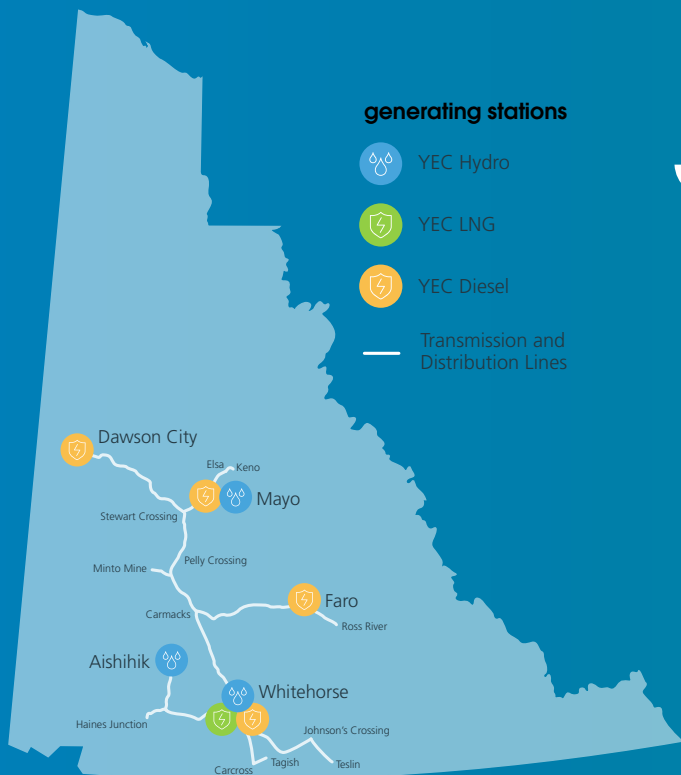
# yukon energy by the numbers

1

of a few isolated grids in North America



📷 *Jim Petelski*



3

hydro stations

1

backup LNG plant

4

backup diesel  
generating stations





archbould.com

1,100 kilometres of power lines

12,000 power poles



archbould.com

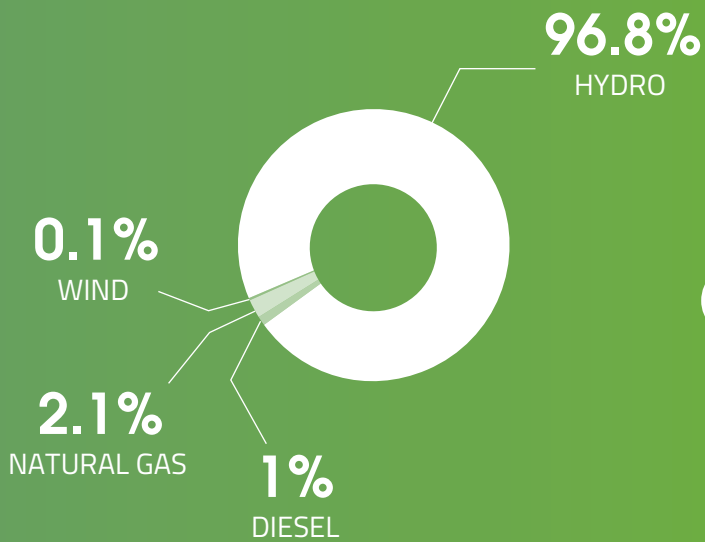


archbould.com

Longest wooden fish ladder in the world

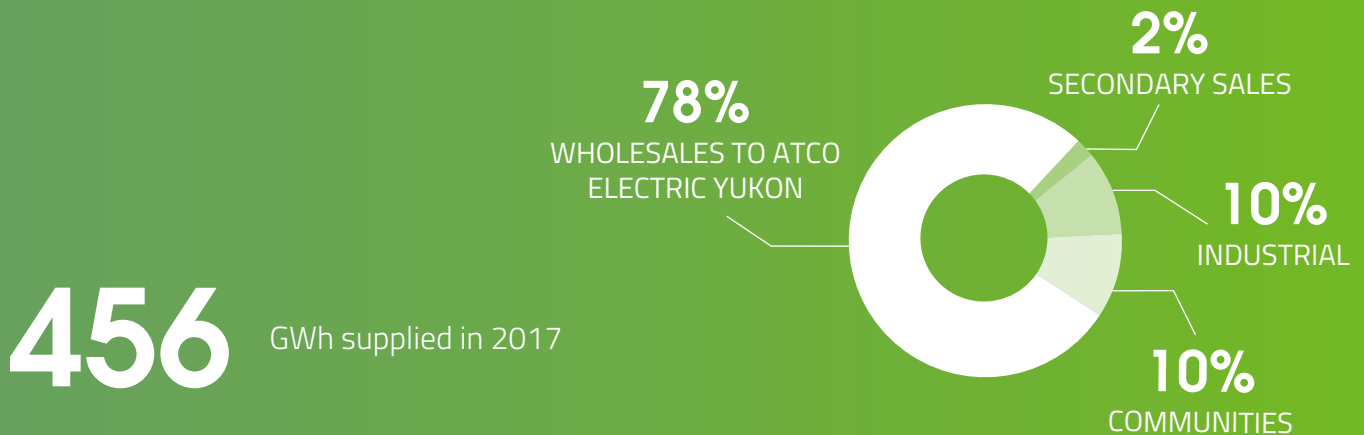


## 2017 TOTAL GENERATION TYPE



**96.8%** renewable in 2017

## 2017 SALES



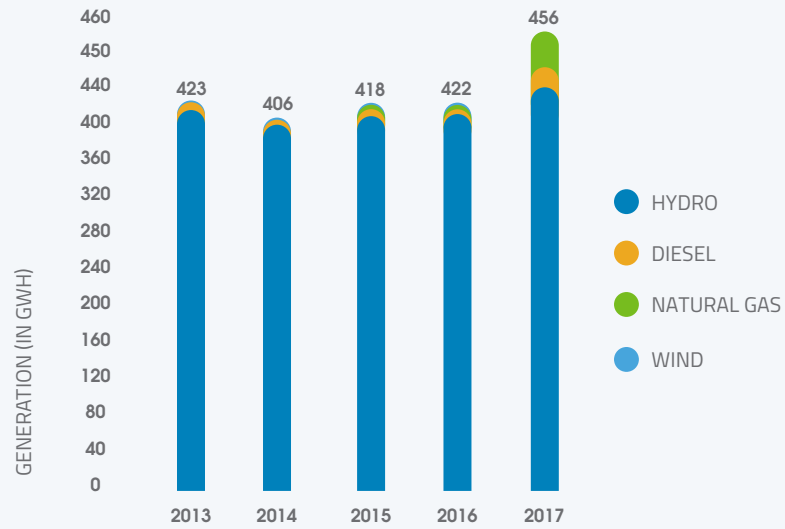
**456** GWh supplied in 2017

**\$45.0** million in 2017 sales

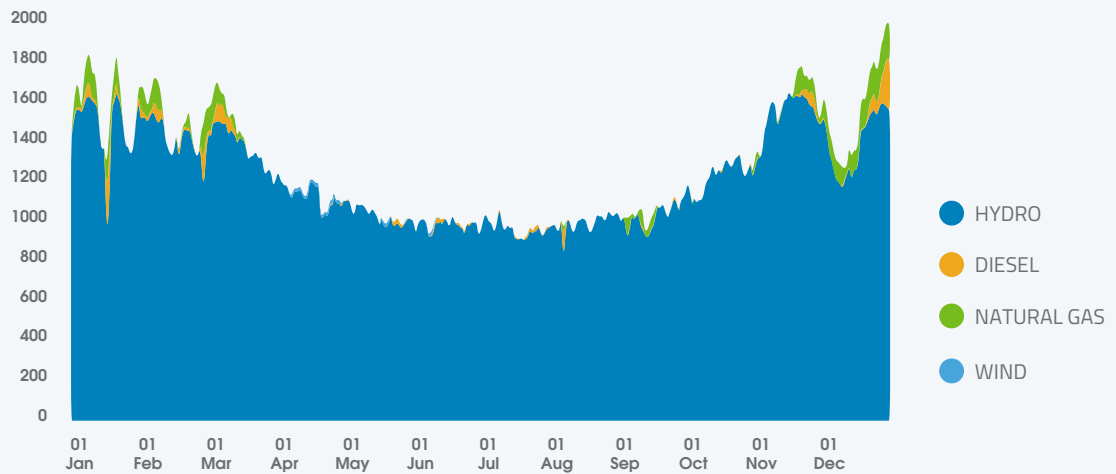
**133** megawatt generating capacity

# our customers

## ELECTRICITY GENERATION



## 2017 GENERATION BY MONTH

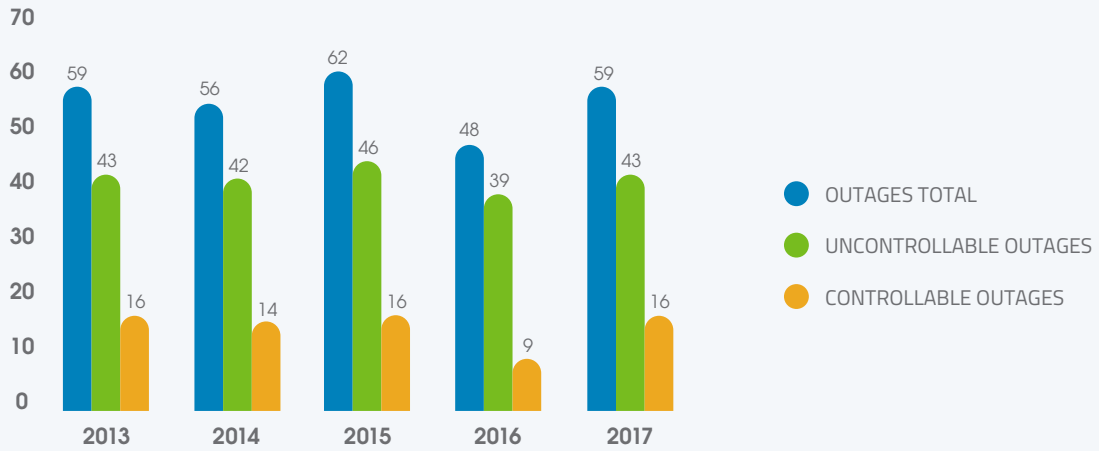


**92.69**

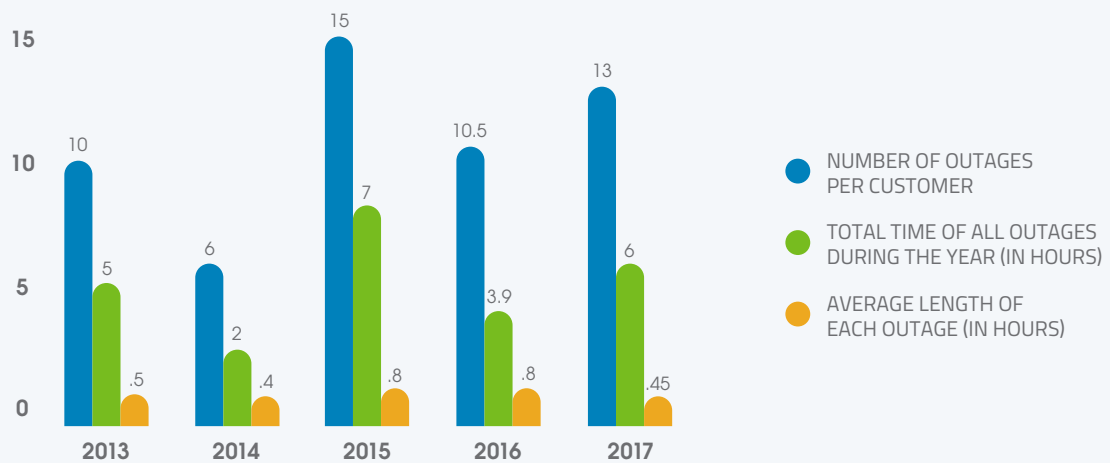
megawatts, new all-time peak set on December 30, 2017



## TOTAL POWER OUTAGES



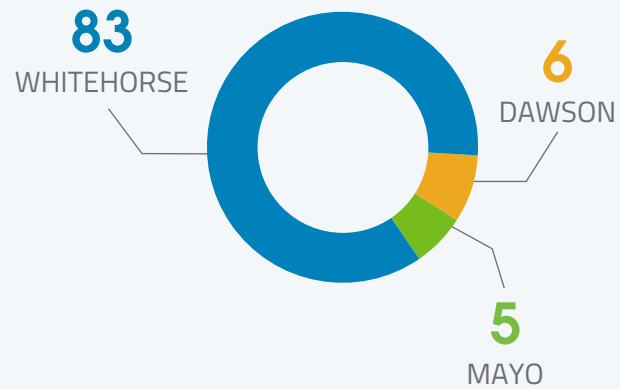
## OUTAGES PER CUSTOMER



# our staff



## our staff



**94** permanent, temporary, and term employees



 archbould.com

**66** employees received close to 2,000 hours of training in 2017





 *Jim Petelski*

**2** people completed apprenticeships

**Lowell Tait**

Heavy Duty Equipment Technician  
Heavy Equipment and Truck and  
Transport Technician

**Jordan Corbeil**

Powerline Technician

**1** person completed his  
apprenticeship equivalent

**Dieter Brenner**

Systems Control Centre Operator

**6** retirements in 2017

**Steve Milner**  
**Bill Haydock**  
**Sulem Darani**

**John Aldrich**  
**Ron Kirkwood**  
**Danny Sutherland**

**9.5** years is the average  
length of service



 Yukon Energy

## long service recipients

### 5 YEARS

Michael Brandt  
Dieter Brenner  
Graham Cochrane  
Jason Epp  
Ken Hasler  
Kathy Krehbiel  
Luke Mahilum  
Matt O'Brien

### 15 YEARS

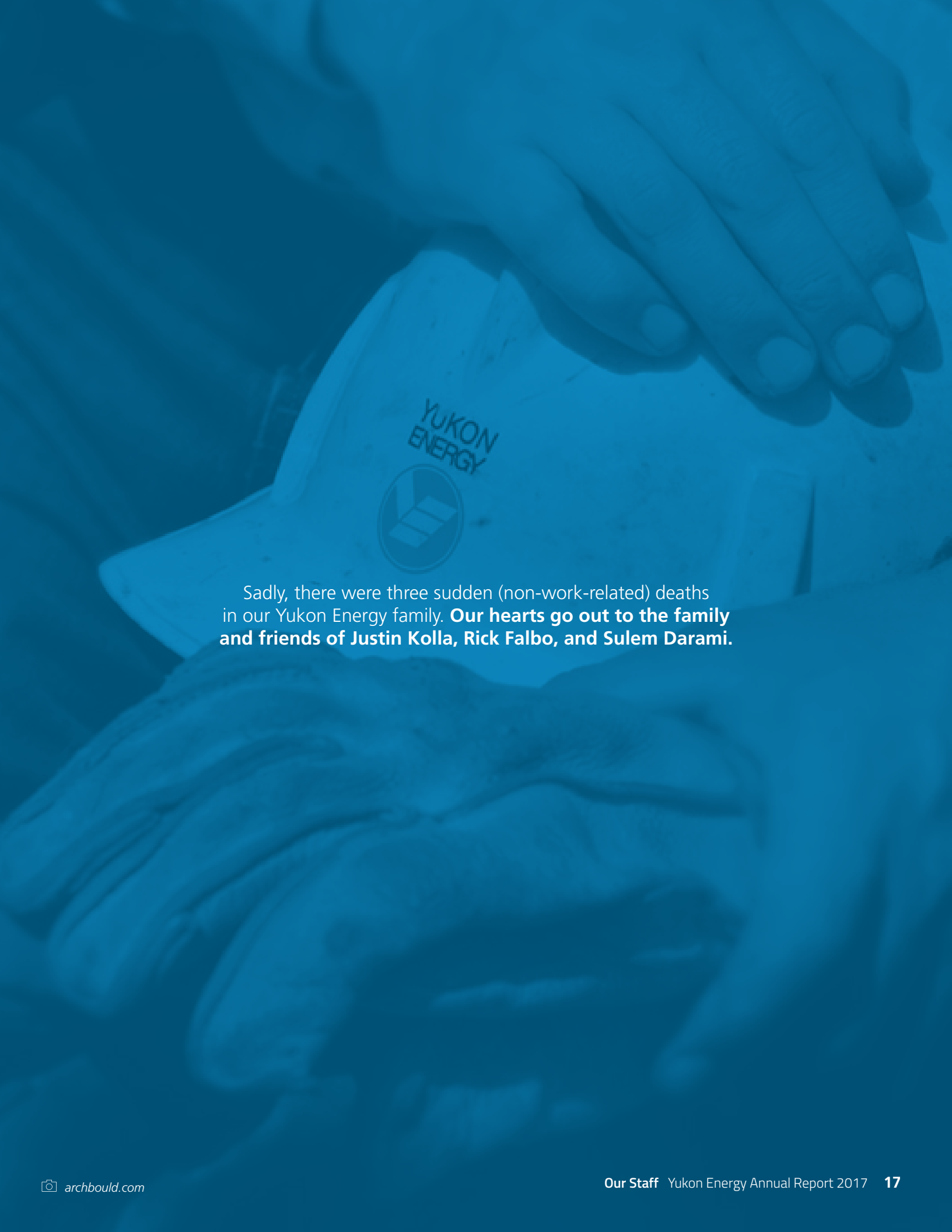
Barbara Bowen  
Darryel Collins  
Darcie Schroeder

### 10 YEARS

Jeremy Germaine  
Wesley Marsh  
Melanie Pettefer  
Travis Ritchie  
Ramona Toth

### 30 YEARS

Steve Blysak  
Guy Morgan

A blue-tinted photograph of hands holding a white cloth. The cloth features the Yukon Energy logo, which consists of the words "YUKON ENERGY" above a circular emblem containing a stylized mountain or cube shape. The hands are positioned as if holding the cloth gently, with fingers visible. The background is dark and out of focus.

Sadly, there were three sudden (non-work-related) deaths in our Yukon Energy family. **Our hearts go out to the family and friends of Justin Kolla, Rick Falbo, and Sulem Darami.**



# strategic priorities



# 2017

Achieve All Injury Frequency Rate of 1.0 or less

For 2017 Yukon Energy had an All Injury Frequency Rate of 5.1, compared to 6.1 in 2016 and 6.2 in 2015. We are trending in the right direction and striving to do better in 2018.

Achieve Motor Vehicle Accident Frequency Rate of 4 or less

For 2017 Yukon Energy had a motor vehicle accident frequency rate of 13.4, up from 5.0 in both 2015 and 2016. We are concerned about this statistic and are working with our staff to make significant improvements in 2018.

Achieve 10 or less controllable outages

We had 16 controllable outages in 2017, compared to 9 in 2016 and 16 in 2015.

Achieve a Return on Equity of 8.82 percent

Goal achieved. We expect a Return on Equity for 2017 of 9.15 percent.

Confirm funding and construction plan of Stewart Keno Transmission Line Project

Target federal funds were identified and funding applications are planned for 2018.

Complete major overhaul of our Whitehorse Hydro #4 Unit on time, on budget (\$4.3M)

Goal achieved. This project was completed on time and below budget.

Develop and launch updated Asset Management Program

Goal achieved.

Place order for 3rd engine to expand capacity of LNG backup power plant

Goal achieved. The engine was ordered in September 2017.

Launch Independent Power Producers Standing Offer Program in collaboration with ATCO Electric Yukon

There was a delay as we worked with the Yukon government on this program. The target is to launch the initiative in early 2019.

# 2018

Achieve All Injury Frequency  
Rate of 1 or less

Achieve a Motor Vehicle  
Accident Rate of 0

Achieve 10 or fewer  
controllable outages

Achieve a Return on Equity  
of 7.35 percent

Complete LNG 3rd Engine  
Project on time and on budget

Complete 2018 scope of  
Transmission Refurbishment  
Project on time and on budget

Develop and implement  
Generation Resource  
Management process

Complete key deliverables  
for Year 1 of the Asset  
Management Program

Confirm path forward  
for addressing long-term  
energy capacity requirement

Develop expanded Demand  
Side Management Program

Submit Aishihik Relicensing  
YESAB application with support  
from the Champagne and  
Aishihik First Nations



# key 2017 capital projects

# key 2017 capital projects



Completed a major overhaul of our largest Whitehorse hydro unit (known as the Fourth Wheel).

---



Developed an updated Asset Management Program, which is allowing us to manage our assets and systems in an integrated and optimized way, and is providing a key link between operational requirements and strategic decision making.

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Completed Year 1 of electrical and controls upgrades at our Aishihik hydro facility.

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Placed order for 3rd engine to expand capacity of LNG backup power plant.

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Finalized 2016 Resource Plan and submitted to the Yukon Utilities Board for review. [resourceplan.yukonenergy.ca](http://resourceplan.yukonenergy.ca)

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Received continued positive response to our inCharge rebate programs. In 2017 Yukoners received more than 3,600 rebates on LED lights and block heater timers. We also provided 30 smart learning thermostats to customers with central electric heating systems, and distributed 500 energy saving kits to customers. The inCharge website was translated into French. [inchargeyukon.ca/fr](http://inchargeyukon.ca/fr)



# health and safety

Safety is a part of every decision we make and every action we take.



# health and safety

Provided more than  
**270 SAFETY  
ORIENTATIONS**  
to staff and over  
100 contractors

**67%** of our employees  
participated in our corporate  
wellness program

Participated in a test  
of our LNG  
**EMERGENCY  
RESPONSE PLAN**

There was a participation  
rate in 2017 of  
**88%**  
among employees  
attending safety meetings

Provided  
**SAFETY EDUCATION**  
as a part of school tours  
at our facilities

Began work with the  
Village of Mayo to install an  
**EARLY WARNING**  
siren in the community to  
alert residents in the event  
of a dam breach



# sustainability

Key to everything we do.

# stewardship and biodiversity



## Migratory Birds

- Major sponsor for the Celebration of Swans festival

 Jim Petelski



## Salmon

- 1,226 Chinook salmon travelled through our Whitehorse Rapids Fishladder, down from 1,556 the year before
- Raised and released about 145,000 Chinook fry from our Whitehorse Rapids Hatchery
- Long-time supporter of the Salmon in the Schools program
- Partnered once again with the Ta'an Kwach'an Council on the Fox Creek Salmon Restoration Program

 Derek Crowe



## Climate Change

- Partnered with Yukon College and a graduate school connected with the University of Quebec on a multi-year research project related to climatic changes in the Mayo and Aishihik basins
- Key partner in Bike to Work Week, which saw more than 100 people biking a total of more than 3,100 kilometres
- Promoted Earth Hour – Yukoners reduced their consumption by approximately one megawatt, enough to power the Village of Mayo and about two percent of the total load on the grid

 Yukon Energy



**Sustainable  
Electricity  
Company™**

Presented with a Sustainable Electricity Company™ designation; only the fifth utility in Canada to receive this recognition and the first in Northern Canada



# economic sustainability

- Filed an application to our regulator, the Yukon Utilities Board, for the first rate increase since 2013.
- Signed an agreement with Victoria Gold for the supply of grid power to the Eagle Gold Mine near Mayo. The agreement was filed with the Yukon Utilities Board in November for review.
- Secondary sales: customers connected to our SCADA system include the Yukon Law Courts, Holy Family School in Whitehorse, and J.V. Clark School in Mayo.

# First Nation partnerships

- Continued to work with the Champagne and Aishihik First Nations (CAFN) to co-manage the Aishihik re-licensing process. The relationship between Yukon Energy and CAFN was strengthened when six staff members participated in an Aishihik culture camp in August.
- Continued engagement with Carcross/Tagish First Nation (CTFN) and Kwanlin Dün First Nation (KDFN) on the proposed Southern Lakes Enhancement project. CTFN has indicated its support to move to the next phase of planning and to prepare a Yukon Environmental and Socio-economic Assessment Board project proposal.
- Worked towards completion of a First Nation Recruitment Policy, a First Nations Engagement Register, and a First Nations Procurement Policy. With support of the Yukon Chamber of Commerce and individual First Nations, Yukon Energy launched an online First Nations business directory.
- Continued to work with the First Nation of Na-cho Nyak Dun (NND) to secure a Project Agreement for the Stewart to Keno City Transmission Line project. This includes a Trappers Compensation Agreement that is awaiting signature by NND.
- Continued to engage with various First Nations as they work towards becoming potential Independent Power Producers.

# supporting our communities

More  
power  
to you

Proud Community Sponsor



**YUKON  
ENERGY**



Provided \$85,000 to more than 40 community groups (money taken from profits; rates are not impacted).



Forty-five staff and board members raised more than \$10,000 for the 2017 United Way Campaign. Yukon Energy was the largest business contributor this year.



Long-time supporter of the Association of Yukon Communities Sustainability Award.



Our staff volunteered at the Whitehorse Food Bank, Yukon River Trail Marathon, Yukon Energy Dempster to Dawson Solstice Run, and the Faro Sheep and Crane Festival among others.



Provided scholarships to three deserving Yukoners:

**Alex Hanson** – \$3,000

**Aiden Bradley** – \$3,000

**Sean Balsillie** – \$3,000



# management discussion and analysis

## CORE BUSINESS AND STRATEGY

Our business is the generation, transmission and distribution of electrical energy to most of Yukon. We strive for energy production that is cost-effective, sustainable, and reliable. Our primary source of power comes from our legacy hydro assets and our goal is to minimize the use of non-renewable sources due to higher variable cost and environmental impacts.

Yukon Energy's strategy is based on the following key strategic pillars:

1. **Sustainability:** YEC is committed to the principles of sustainability in all our business practices, with the objective of protecting and enhancing Yukon's human and natural resources. YEC developed a Sustainability Policy in 2017, and was awarded the "Sustainable Electricity Company" designation by the Canadian Electricity Association (CEA) in 2017. In terms of the development of new energy resources, YEC is committed to developing renewable resources, recognizing the limitations of certain forms of renewable generation in meeting the energy and capacity needs of Yukon's isolated grid. Thermal sources will continue to play an important role in cost effectively meeting peak electricity demand, and providing insurance against contingent events such as drought and outages of key hydro facilities. YEC applies a social cost of carbon to the economics of future thermal generation resources, in order to level the playing field between renewable and fossil fuel options when planning new resource investments.
2. **First Nations Relationships:** YEC is committed to active engagement with Yukon First Nations, striving to meet the spirit and intent of Land Claims obligations. We recognize First Nations as governments and potential energy proponents, partners and investors. We seek to leverage YEC's ongoing business operations and future project development work to create opportunities for economic, social and cultural development for Yukon First Nations. Key First Nations initiatives include project-specific agreements, and YEC's First Nations Employment and Procurement policies. YEC is pursuing certification under the Aboriginal Business Council's Progressive Aboriginal Relations (PAR) program as a means to manage and benchmark its First Nations engagement program.
3. **Disciplined Financial Management:** Given the rate pressures faced by YEC's customers and the prospect for future rate increases driven by the Corporation's capital investment needs, disciplined financial management of YEC's operating and project-related business is essential. YEC is also committed to continuous improvement as a management philosophy to drive sustained improvements in YEC's operational performance and efficiency.
4. **Rigorous and Proactive Planning:** YEC applies industry best practices and processes for the planning of future capital investments required to sustain the Corporation's ageing infrastructure and address growing demand for energy and capacity. Rigorous planning of future investments is required to optimize and prioritize capital expenditures, accounting for the financial constraints within which the Corporation operates. Key business processes that support these planning activities include Integrated Resource Planning and Asset Management. YEC has developed and periodically updates its 5-year capital plan, including investments required to sustain existing assets and meet future growth, as a key tool to document and communicate the Corporation's longer-term capital needs.
5. **Stakeholder and Employee Engagement:** As a public utility, YEC is committed to broadly consult with stakeholders during the planning of new projects and initiatives, and to incorporate to the extent possible, the preferences of stakeholders in those plans. This consultation is essential to securing social license for corporate initiatives, while also balancing the obligations of the Corporation to its shareholder and its primary regulators (the Yukon Utilities Board and the Yukon Water Board). In addition, the Corporation's employees are critical to the company's success. Maintaining a safe, strong and engaged workforce capable of executing YEC's ambitious plans remains a key strategic priority.

## CAPABILITY TO DELIVER RESULTS

In order to deliver on our strategic goals and achieve planned results, Yukon Energy maximizes the use of available resources while considering risks and impacts to stakeholders. These resources include leadership, labour force, working capital, systems and processes, other aspects of liquidity, and capital resources.

We continue to develop human resources policies to adapt to our seasoned work force.

We monitor and forecast our cash and financial strength on an on-going basis, including current and future projections. We expect to require cash to finance our capital projects in 2018 and are in the process of securing these resources.

Through established policies and procedures Yukon Energy maintains a capital structure ratio of 60 percent debt and 40 percent equity.

We continually monitor and evaluate the condition of our assets, and allocate a material portion of our capital budget for maintenance of these assets, thereby ensuring reliability of service to our customers.

We make it a priority to maintain and improve our key relationships with Yukoners including the Yukon government, Yukon Development Corporation, local First Nations, stakeholders, and our primary banker, TD Bank.

## RESULTS

Net income for the 2017 fiscal year was \$10.5 million, \$2.4 million more than the previous year. The increase in net income was primarily due to a broad increase in sales of power.

Revenue from sale of power was \$45 million; \$5 million higher than the prior year due to an increase in all power sales categories resulting from increased rates and increased consumption.

The regulated rate of return on equity for 2016 is 8.88 percent, up from 8.69 percent the prior year.

## OUTLOOK

Net income for 2018 is forecast to decrease by \$1.8 million due to an increase in fuel and interest costs. Projected revenue from power sales is forecast to increase by \$1.6 million.

The forecast return for 2018 is 6.66 percent, 2.16% less than the Return on Equity that we are applying for in our 2017–2018 GRA of 8.82 percent.

Yukon Energy is planning for a General Rate Application (GRA) for 2019–2020. The GRA will give us the opportunity to adjust rates and get approval for new capital builds.

## RISK MANAGEMENT

Yukon Energy is exposed to numerous risks in providing service to our customers. Risk impacts include safety, financial, reputation, long-term and short-term load/resource balance, stakeholder relationships and funding. These risks can range in scale from minor to catastrophic. Yukon Energy endeavors to manage all the risks we face on a cost effective basis, taking into account the potential reward to be gained in return for the acceptance of the risk. We have an enterprise risk management framework that provides the basis for consistently applying risk management practices.

## KEY STRATEGIES BY IMPACT AREA

- The safety of our employees, contractors, and members of the public is managed through a well-developed health and safety program that meets or exceeds established standards for the industry.
- Yukon Energy is exposed to reputational impacts from a number of risks including Key Asset Failure, First Nations Consent, Social License, IT Security, and Insufficient Installed Capacity. Mitigation strategies used to address these risks include adequate stakeholder engagement, development of an asset management plan, and long-term resource planning.
- Risks that can potentially have a negative financial impact include Financing Risk, Government & Shareholder Relationship Risk, Project Costs and Timeline Overrun, Regulatory Risk, and Loss of Demand. These are managed through an extensive budgeting process, board oversight of major projects, and keeping the Yukon Utilities Board informed of company plans and activities through regulatory hearings.

## KEY PERFORMANCE DRIVERS

There are several performance drivers and key performance indicators that are critical to the successful implementation of our strategy and achievement of our goals. Below is an outline of three of our most important performance drivers.

1. Return on Equity (ROE): in the process of regulating and setting rates for Yukon Energy, the Yukon Utilities Board must ensure that the rates are sufficient to allow us to provide reliable electric service, meet our financial obligations, comply with government policy and achieve a reasonable ROE.
2. Workforce: a stable workforce is crucial for delivering services required to achieve our business objectives. We regularly monitor our vacancy and turnover rate to ensure that our staffing is at appropriate levels. We set our human resources policies to recruit and retain a competent work force, provide opportunities for professional development and perform succession planning.
3. Reliability of Service: reliability of service is one of our most important objectives. Improving reliability requires a long-term investment strategy and commitment. Trends in recent performance measures are compared against past results. Senior management reviews performance indicators and takes action when actual performance deviates from forecast.



# financial statements

- 34** Management's Responsibility for Financial Reporting
- 35** Independent Auditor's Report
- 37** Statement of Financial Position
- 38** Statement of Operations and Other Comprehensive Income
- 39** Statement of Changes in Equity
- 40** Statement of Cash Flows
- 41** Notes to Financial Statements

## Management's Responsibility for Financial Reporting

Management is responsible for the preparation of these financial statements in conformity with International Financial Reporting Standards and all other financial information relating to the Utility contained in this annual report. These financial statements have been prepared by management using methods appropriate for the industry in which the Utility operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The Auditor General of Canada is the external auditor of the Corporation.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to ensure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.



Andrew Hall  
President and CEO



Ed Mollard  
Chief Financial Officer

May 9, 2018



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

### Report on the Financial Statements

I have audited the accompanying financial statements of the Yukon Energy Corporation, which comprise the statement of financial position as at 31 December 2017, and the statement of operations and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Yukon Energy Corporation as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



### Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the Yukon Energy Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations and the articles and by-laws of the Yukon Energy Corporation.



Lana Dar, CPA, CA  
Principal  
for the Auditor General of Canada

9 May 2018  
Vancouver, Canada

**Yukon Energy Corporation**  
**Statement of Financial Position**  
(in thousands of Canadian dollars)

As at	December 31 2017	December 31 2016
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 240	\$ 551
Accounts receivable (Note 5)	7,529	5,873
Inventories (Note 6)	3,782	3,597
Prepaid expenses	678	754
	12,229	10,775
<b>Non-current</b>		
Property, plant and equipment (Note 7)	445,231	444,354
Intangible assets (Note 8)	8,476	7,281
<b>Total assets</b>	<b>465,936</b>	<b>462,410</b>
Regulatory deferral account debit balances (Note 9)	33,163	27,880
<b>Total assets and regulatory deferral account debit balances</b>	<b>\$ 499,099</b>	<b>\$ 490,290</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (Note 10)	\$ 7,294	\$ -
Accounts payable and accrued liabilities (Note 11)	9,821	8,535
Construction financing (Note 12)	22,385	22,385
Derivative related liability (Note 24)	56	409
Current portion of long-term debt (Note 13)	5,248	5,238
	44,804	36,567
<b>Non-current</b>		
Post-employment benefits (Note 14)	6,116	5,867
Contributions in aid of construction (Note 15)	168,988	172,770
Decommissioning fund (Note 16)	2,665	2,636
Long-term debt (Note 13)	142,523	147,771
<b>Total liabilities</b>	<b>365,096</b>	<b>365,611</b>
<b>Equity</b>		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued and fully paid: 3,900 shares	39,000	39,000
Contributed surplus	14,600	14,600
Retained earnings	61,367	51,034
<b>Total equity</b>	<b>114,967</b>	<b>104,634</b>
<b>Total liabilities and equity</b>	<b>480,063</b>	<b>470,245</b>
Regulatory deferral account credit balances (Note 9)	19,036	20,045
<b>Total liabilities, equity and regulatory deferral account credit balances</b>	<b>\$ 499,099</b>	<b>\$ 490,290</b>

**Commitments and Contingencies (Notes 21 and 22)**

The accompanying notes are an integral part of these financial statements.

**Approved by the Board**

 , Chair

 , Director

**Yukon Energy Corporation**  
**Statement of Operations and Other Comprehensive Income**  
(in thousands of Canadian dollars)

<b>For the year ended December 31</b>	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Sales of power (Note 17)	\$ 44,971	\$ 40,013
Funding from parent (Note 20)	565	825
Other	369	287
	<b>45,905</b>	<b>\$ 41,125</b>
<b>Operating expenses</b>		
Operations and maintenance (Note 18)	18,328	19,322
Administration (Note 19)	10,772	11,923
Depreciation and amortization (Notes 7 and 8)	13,268	11,262
	<b>42,368</b>	<b>42,507</b>
<b>Income (Loss) before other income and other expenses</b>	<b>3,537</b>	<b>(1,382)</b>
<b>Other income</b>		
Allowance for funds used during construction	466	819
Amortization of contributions in aid of construction (Note 15)	4,116	4,102
Unrealized gain on interest rate swap (Note 24)	353	144
	<b>4,935</b>	<b>5,065</b>
<b>Other expenses</b>		
Interest on borrowings	4,303	3,536
	<b>4,303</b>	<b>3,536</b>
<b>Net income for the year before net movements in regulatory deferral account balances</b>	<b>4,169</b>	<b>147</b>
<b>Net movement in regulatory deferral account balances related to net income (Note 9 (d))</b>	<b>6,292</b>	<b>7,908</b>
<b>Net income for the year and net movements in regulatory deferral account balances</b>	<b>10,461</b>	<b>8,055</b>
<b>Other Comprehensive Income (Note 3 (o))</b>		
Item that will not be reclassified to net income in subsequent periods		
Re-measurement of defined benefit pension plans (Note 14)	(128)	(483)
<b>Total comprehensive income for the year</b>	<b>\$ 10,333</b>	<b>\$ 7,572</b>

The accompanying notes are an integral part of these financial statements.



**Yukon Energy Corporation**  
**Statement of Changes in Equity**  
(in thousands of Canadian dollars)

	Share Capital Number of shares	Capital \$	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance at December 31, 2015</b>	<b>3,900</b>	<b>\$ 39,000</b>	<b>\$ 14,600</b>	<b>\$ 46,303</b>	<b>-</b>	<b>\$ 99,903</b>
Net income for the year and net movement in regulatory deferral account balances	-	-	-	8,055	-	8,055
Other comprehensive income	-	-	-	-	(483)	(483)
Transfer of re-measurement of defined benefit pension plans to retained earnings	-	-	-	(483)	483	-
Dividends	-	-	-	(2,841)	-	(2,841)
<b>Balance at December 31, 2016</b>	<b>3,900</b>	<b>\$ 39,000</b>	<b>\$ 14,600</b>	<b>\$ 51,034</b>	<b>-</b>	<b>\$ 104,634</b>
Net income for the year and net movement in regulatory deferral account balances	-	-	-	10,461	-	10,461
Other comprehensive income	-	-	-	-	(128)	(128)
Transfer of re-measurement of defined benefit pension plans to retained earnings	-	-	-	(128)	128	-
<b>Balance at December 31, 2017</b>	<b>3,900</b>	<b>\$ 39,000</b>	<b>\$ 14,600</b>	<b>\$ 61,367</b>	<b>-</b>	<b>\$ 114,967</b>

The accompanying notes are an integral part of these financial statements.

**Yukon Energy Corporation**  
**Statement of Cash Flows**  
(in thousands of Canadian dollars)

For the year ended December 31	2017	2016
<b>Operating activities</b>		
Cash receipts from customers	\$ 43,684	\$ 40,814
Cash receipts from parent	565	825
Cash receipts from contributions in aid of construction	334	332
Cash paid to suppliers	(19,106)	(17,464)
Cash paid to employees	(11,580)	(11,640)
Interest paid	(3,670)	(3,473)
Cash provided by operating activities	<b>10,227</b>	9,394
<b>Financing activities</b>		
Receipt of construction financing	-	8,400
Repayment of long-term debt	(5,238)	(6,067)
Cash (used in) provided by financing activities	<b>(5,238)</b>	2,333
<b>Investing activities</b>		
Additions to property, plant and equipment	(10,346)	(11,530)
Additions to intangible assets	(2,248)	(1,318)
Cash used in investing activities	<b>(12,594)</b>	(12,848)
<b>Net decrease in cash</b>	<b>(7,605)</b>	(1,121)
<b>Cash, beginning of year</b>	<b>551</b>	1,672
<b>Cash, end of year</b>	<b>\$ (7,054)</b>	\$ 551
Cash includes:		
Cash	\$ 240	\$ 551
Bank indebtedness	(7,294)	-
	<b>\$ (7,054)</b>	<b>\$ 551</b>

The accompanying notes are an integral part of these financial statements.

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# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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### 1. NATURE OF OPERATIONS

#### a) General

Yukon Energy Corporation ("the Utility") is incorporated under the Yukon *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation ("YDC" or "the Parent"), a corporation owned by the Yukon Government ("the Government" or "YG"). The Utility generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes. The Utility's principal place of business is located at #2 Miles Canyon Road, Whitehorse, Yukon, Y1A 6S7.

The Utility is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Water Board. Both boards are consolidated by the Government and as such are considered to be related parties for accounting purposes. Management has assessed that these boards operate independently from the Utility from a rate setting and operating perspective.

#### b) Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility files a General Rate Application (GRA) for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principles of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Government through Orders-In-Council ("OIC") that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility expects it will incur to provide electricity to its customers over the immediate future are reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the depreciation of all capital equipment; and
- the return on rate base (the borrowing costs related to borrowing that portion of rate base which is financed with debt plus the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

The YUB assesses the prudence of costs added to rate base, which includes an allowance for funds used during construction ("AFUDC") charged to capital projects. The YUB also reviews the appropriateness of property, plant and equipment depreciation rates, which are periodically updated by the Utility through depreciation studies.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of OIC 1995/90 and can include a cost-of-service study which allocates the Utility's overall cost of service to the various customer classes on the basis of appropriate costing principles.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 1. NATURE OF OPERATIONS - continued

##### b) Rate regulation - continued

In June 2017, the Utility filed a GRA for the years 2017 and 2018 requesting a number of board orders.

The GRA requested a rate increases of 9.04% and 2.07% for the years 2017 and 2018 respectively. A refundable interim rider (5.50%) was approved effective September 1, 2017. The interim rate will be replaced by final rates, if approved by the YUB.

The GRA also included requested board orders related to the regulatory deferral accounts, specifically: increase of the annual appropriation for uninsured losses and change to the rate of amortization; elimination of the requirement to defer vegetation management costs in excess of the 2011 actual brushing costs and amortization of previously deferred costs; change to the long-term average for fuel costs to better reflect current market conditions; and, decrease the annual appropriation for the hearing reserve and change to the rate of amortization.

These financial statements reflect the requested rate increase for 2017 and all other YUB board orders requested in the GRA which affect the Utility's financial statements for 2017. All of these requested board orders are subject to approval by the YUB as part of the regulatory proceeding to approve the GRA. Refer to Note 4 Regulatory deferral account balances.

##### c) Water regulation

The Yukon Water Board, pursuant to the *Yukon Waters Act*, decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

##### d) Capital structure

The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity (Note 25). Dividends are normally declared annually to the Parent and are typically loaned back in order to maintain this ratio during normal on-going operations.

#### 2. BASIS OF PRESENTATION

##### a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were authorized for issue by the Board of Directors on May 9, 2018.

##### b) Basis of measurement

The financial information included in the financial statements has been prepared on a historical cost basis, except for some financial instruments, as described in note 3(f), which are measured at fair value.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all periods presented in these financial statements.

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### a) Revenue recognition

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed at year-end.

##### b) Translation of foreign currencies

The functional currency of the Utility is the Canadian Dollar. Revenue and expense items denominated in foreign currencies are translated at exchange rates prevailing during the period. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates. Non-monetary assets and liabilities are translated at exchange rates in effect when the assets are acquired or the obligations are incurred. Foreign exchange gains and losses are reflected in net income for the period.

##### c) Allowance for funds used during construction

The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC). The AFUDC rate is based on the Utility's weighted average cost of debt.

##### d) Cash

Cash is comprised of bank account balances (net of outstanding cheques).

##### e) Inventories

Inventories consist of materials and supplies, diesel fuel and liquefied natural gas. Inventories are carried at the lesser of weighted average cost and net realizable value. Cost includes all expenditures incurred in acquiring the items and bringing them to their existing condition and location. Critical spare parts are recognized in the Utility's property, plant and equipment.

The recoverable value of inventory considers its net realizable value, including required processing costs, and is impacted by estimates and assumptions on prices, quality, recovery and exchange rates. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

##### f) Financial instruments

Financial assets and financial liabilities are recognized on the Utility's Statement of Financial Position when the Utility becomes party to the contractual provisions of the instrument. Accounts receivable, classified as loans and receivables, are initially measured at fair value. Subsequent to initial recognition, accounts receivable are measured at amortized cost using the effective interest rate method less any impairment.

A provision for impairment of accounts receivable is established when there is objective evidence that the Utility will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or require financial reorganization, and default or delinquency in payments are considered indicators that the related accounts receivable are impaired. The accounts receivable carrying amount is reduced through the use of an allowance account and the loss is recognized in net income.

Bank indebtedness, accounts payable and accrued liabilities, construction financing and long-term debt are classified as other financial liabilities and they are initially recognized at fair value. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method (except for cash and bank indebtedness which are measured at cost).

Transaction costs are presented as a reduction from the carrying value of the related debt and are amortized using the effective interest rate method over the terms of the debts to which they relate. Transaction costs include fees paid to agents, brokers and advisors but exclude debt discounts and lender financing costs.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### f) Financial instruments - continued

Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Utility has entered into an interest rate swap to manage interest rate risk. The Utility's interest rate swap is classified as held for trading and is thus recognized at fair value on the date the contract has been entered into with any subsequent realized and unrealized gains and losses recognized in net income during the period in which the fair value movement occurred.

##### g) Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any asset impairment charges. Cost includes the direct costs of acquisition and materials, direct labour, and, if applicable, an allocation of directly attributable overhead costs, AFUDC and any asset retirement costs associated with the property, plant and equipment.

AFUDC is applied to actual costs in work-in-progress less any contributions in aid of construction. For items of property, plant and equipment acquired prior to January 1, 2011, the AFUDC rate also included a regulatory cost of equity component as allowed by the YUB. Capitalization of AFUDC ceases when the asset being constructed is substantially ready for its intended purpose.

Assets under construction are recognized as in construction work in progress until they are operational and available for use, at which time they are transferred to the applicable component of property, plant and equipment.

Depreciation is recognized in net income based on the straight-line method over the estimated useful life of each major component of property, plant and equipment. The range of the estimated useful lives of the major classes and subclasses of property, plant and equipment is as follows:

Generation	
Hydroelectric plants	30 to 103 years
Thermal plants	12 to 72 years
Wind turbines	30 years
Transmission	20 to 65 years
Distribution	12 to 55 years
Buildings	20 to 55 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Depreciation commences when an asset is available for use. The estimated useful lives of the assets are based upon depreciation studies conducted periodically by the Utility and any changes in the estimated useful lives are accounted for prospectively.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### g) Property, plant and equipment - continued

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period of the expected useful life (until the next major overhaul) which varies from 5 to 10 years. Repairs and maintenance costs of property, plant and equipment are expensed as incurred unless they meet the criteria of a betterment.

##### h) Intangible assets

Intangible assets are carried at cost less accumulated amortization and any asset impairment charges. Cost includes the direct costs of acquisition and materials, direct labour, and, if applicable, an allocation of directly attributable overhead costs and AFUDC.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives as follows:

Software	5 years
Deferred customer service costs	12 years
Financial software	10 years
Licencing costs	
Hydro generation	17 to 25 years
Diesel generation	3 years

##### i) Impairment of non-financial and financial assets

Property, plant and equipment, regulatory deferral account debit balances and intangible assets with finite lives are reviewed for impairment on an annual basis if there is an indication that the carrying amount may not be recoverable. Impairment is assessed at the level of cash-generating units, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use and fair value less costs to sell ("FVLCS") for non-financial assets and objective evidence of impairment in the case of financial assets. Value in use is the net present value of expected future cash flows of the relevant cash-generating unit in its current condition. The best evidence of FVLCS is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCS is based on the best information available to reflect the amount the Utility could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques and where unobservable inputs are material to the measurement of the recoverable amount, the measurement is classified as level 3 in the fair value hierarchy. The cash flow forecasts for FVLCS purposes are based on management's best estimates of expected future revenues and costs, including the future cash costs of production, capital expenditure, closure, restoration and environmental cleanup. For regulatory deferral account debit balances the impairment review focuses on whether the amount is considered collectible based on the expected cash flows from the rates approved by the YUB.

These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in net income and the resulting carrying amounts of the assets.

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### j) Rate regulated accounting policies

##### Regulatory deferral accounts

Regulatory deferral accounts in these financial statements are accounted for differently than they would be in the absence of rate regulation. The Utility defers certain costs or revenues as regulatory deferral account debit balances or regulatory deferral account credit balances on the Statement of Financial Position and recognizes them in the net movement in regulatory deferral account balances in the Statement of Operations and Other Comprehensive Income. The amounts recognized as regulatory deferral account balances are expected to be recovered or refunded in future rates, based on approvals by the YUB. The recovery or settlement of regulatory deferral account balances through future rates is impacted by demand risk and regulatory risks (e.g. potential future decisions of the YUB which could result in material adjustments to these regulatory deferral account debit balances and regulatory deferral account credit balances as described in Note 1(b)).

##### i) Regulatory deferral account debit balances

Regulatory deferral account debit balances represent costs which are expected to be recovered from customers in future periods through the rate-setting process. In the absence of rate regulation and the Utility's adoption of IFRS 14, such costs would be expensed as incurred.

##### ii) Regulatory deferral account credit balances

Regulatory deferral account credit balances represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting process. In the absence of rate regulation and the Utility's adoption of IFRS 14, such amounts would be recorded in income as earned.

Note 9 describes the individual regulatory deferral accounts, the Utility's related regulatory deferral and amortization policies and describes the related account activity in the relevant periods.

#### k) Provision for asset retirement obligations

The Utility has legal obligations related to the closure and restoration of property, plant and equipment, which includes the costs of dismantling, demolition of infrastructure and the removal of residual materials and remediation of the disturbed areas.

Where a reliable estimate of the present value of these obligations can be determined, the total retirement costs are recognized as a provision in the accounting period when the obligation arises. There is also a corresponding increase to property, plant and equipment upon recognition of the obligation. Management estimates its costs based on feasibility and engineering studies and assessments using current restoration standards and techniques.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **l) Provision for environmental liabilities**

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a provision when it has a present obligation as a result of a past event to remediate the contaminated site, it is expected that future economic benefits will be given up to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the likelihood of the Utility's obligation to incur these costs is either not determinable or the amount of the obligation cannot be reliably estimated, the contingency is disclosed in the notes to the financial statements.

The Utility reviews its provision for environmental liabilities on an ongoing basis and any changes are recognized in net income for the current period.

##### **m) Contributions in aid of construction**

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's Parent, the YG, or the Government of Canada. These contributions are deferred upon receipt and amortized to income on the basis of the lesser of the term of the contract or the life of the asset to which they relate.

##### **n) Decommissioning fund**

The decommissioning fund represents monies paid in advance by an industrial customer to decommission the spur line that connects its operation to the Utility's grid. Under a power purchase agreement, the customer has the financial responsibility for decommissioning expenses to be performed by the Utility on its behalf. Any amounts not required for decommissioning will be refunded to the customer. This money accrues interest at the rate equal to the three month Canadian Dealer Offered Rate ("CDOR").

##### **o) Post-employment benefits and other comprehensive income**

The Utility sponsors an employee defined benefit pension plan for employees joining the Utility before January 1, 2002. The Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan for a former executive. Benefits provided are calculated based on length of pensionable service, pensionable salary at retirement age and negotiated rates. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

For the defined benefit plans the cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Re-measurements of the net defined benefit liability, including actuarial gains and losses and return on plan assets, are recognized in other comprehensive income ("OCI") and are not reclassified to net income in a subsequent period. The Utility's policy is to immediately transfer actuarial gains and losses recognized in OCI to retained earnings. The expected return on plan assets is based on the fair value of these assets.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### o) Post-employment benefits and other comprehensive income - continued

Employees joining the Utility after January 1, 2002 are eligible for a defined contribution retirement plan and are not eligible to participate in the defined benefit pension plan. The Utility has no legal or constructive obligation to pay further contributions with respect to this plan. Contributions are recognized as an expense in the year when employees have rendered service and represent the obligation of the Utility.

##### p) Changes in accounting policies and disclosures

An amendment to IAS 7 *Statement of Cash Flows* requires the Utility to provide disclosures to separately identify cash and non-cash changes in liabilities arising from financing activities. This additional disclosure has been reflected in Notes 12 and 13.

##### q) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements. There are three standards that management has assessed as having a potential future impact, IFRS 15, *Revenue from Contracts with Customers*, IFRS 9, *Financial Instruments* and IFRS 16, *Leases*.

i) IFRS 15, *Revenue from Contracts with Customers*, is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized. The Utility will adopt IFRS 15 on January 1, 2018 and will apply the cumulative effect method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption January 1, 2018. While the Utility is completing its assessment of the adoption of IFRS 15, it expects no significant impacts to the Utility's financial statements. The adoption of this standard will also impact the Utility's revenue disclosures as the Utility will be required to disclose the judgments, and changes in judgments made in applying IFRS 15 and a reconciliation of certain balances.

ii) IFRS 9, *Financial Instruments*, will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition & Measurement* with a single model that has only two classification categories: amortized cost and fair value. The new standard provides additional guidance on the classification and measurement of financial instruments, introduces a new "expected credit loss model" for the impairment of financial assets and provides new guidance on the application of hedge accounting. The standard becomes effective for annual periods beginning on or after January 1, 2018, which is the date the Utility will adopt IFRS 9 retrospectively without restatement of comparative amounts. While the Utility is completing its assessment of the adoption of IFRS 9 it expects no significant impacts to the Utility's financial statements.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### q) New standards and interpretations not yet adopted - continued

iii) IFRS 16, *Leases*, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Utility continues to assess the impact of adopting this standard on its financial statements.

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of judgment in applying accounting policies and in making critical accounting estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of any contingent assets and liabilities. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected. Information about such judgments and estimates is contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarized below.

Areas of significant judgment and estimates made by management in preparing these financial statements include:

##### **Impairment of long-lived assets – Notes 3g) and 7**

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Management continually monitors the Utility's operations and makes judgments and assessments about conditions and events in order to conclude whether possible impairment exists.

##### **Asset retirement obligations – Notes 3k) and 22**

In determining the present value of the obligation, the Utility must estimate the amount and timing of the future cash payments and then apply an appropriate risk-free interest rate. Any changes to the anticipated amounts or timing of future payments or risk-free interest rate can result in a change to the obligation.

##### **Depreciation and amortization – Notes 3g), h), 7 and 8**

Significant components of property, plant and equipment are depreciated straight line over their estimated useful lives. Useful lives are determined based on current facts and past experience and the results of depreciation studies. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates. As such, assets may continue in use after being fully depreciated, or may be retired or disposed of before being fully depreciated. The latter could result in additional depreciation expense in period of disposition.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

##### **Intangible assets – Notes 3h) and 8**

In determining whether to recognize costs as intangible assets, management makes judgments about when the criteria for recognition are met. Changes to management's judgments would affect the carrying amount of the Utility's intangible assets and amortization recognition.

##### **Post-employment benefits – Notes 3o) and 14**

The Utility accrues for its obligations under defined benefit pension plans using actuarial valuation methods and other assumptions to estimate the projected benefit obligation and the associated expense related to the current period. The key assumptions utilized include the long-term rate of inflation, rates of future compensation, liability discount rates and the expected return on plan assets. The Utility consults with qualified actuaries when setting the assumptions used to estimate benefit obligations. Actual rates could vary significantly from the assumptions and estimates used.

##### **Revenue – Note 17**

The Utility estimates usage not yet billed at year end, which is included in revenues from sale of power. This accrual is based on an assessment of unbilled electricity supplied to customers between the date of the last meter reading and the year end. Management applies judgment to the measurement of the estimated consumption.

##### **Provisions and Contingencies – Notes 3l) and 22**

Management is required to make judgments to assess if the criteria for recognition of provisions and contingencies are met, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Key judgments are whether a present obligation exists and the probability of an outflow being required to settle that obligation. Key assumptions in measuring recognized provisions include the timing and amount of future payments and the discount rate applied in measuring the provision.

Where the Utility is defending certain lawsuits management must make judgments, estimates and assumptions about the final outcome, timing of trial activities and future costs as at the period end date. Management will obtain the advice of its external counsel in determining the likely outcome and estimating the expected obligations associated with these lawsuits; however, the ultimate outcome or settlement costs may differ from management's estimates.

##### **Financial Instruments – Notes 3f) and 24**

The Utility enters into financial instrument arrangements which may require management to make judgments to determine if such arrangements are derivative instruments in their entirety or contain embedded derivatives, including whether those embedded derivatives meet the criteria to be separated from their host contract, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Key judgments are whether certain non-financial items are readily convertible to cash, whether similar contracts are routinely settled net in cash or delivery of the underlying commodity taken and then resold within a short period, whether the value of a contract changes in response to a change in an underlying rate, price, index or other variable, and for embedded derivatives, whether the economic risks and characteristics are not closely related to the host contract and a separate instrument with the same terms would meet the definition of a derivative on a standalone basis.



# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

### December 31 2017

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

##### Regulatory deferral account balances – Notes 1b), 3j) and 9

The Utility accounts for its regulatory deferral accounts in accordance with IFRS 14, *Regulatory Deferral Accounts* and the decisions of the YUB. As discussed in note 1b) the recovery of these balances will be determined by the YUB as part of the regulatory proceeding to approve the GRA. Management is required to make judgments as to the timing of recognition and probability that the YUB will approve the Utility to collect deferred costs through future rates.

#### 5. ACCOUNTS RECEIVABLE

	December 31 2017	December 31 2016
Wholesale energy sales	\$ 4,227	\$ 3,734
Retail energy sales	2,366	1,494
Due from related parties (Note 20)	373	112
Other	563	533
	<b>\$ 7,529</b>	<b>\$ 5,873</b>

At December 31, 2017, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 6,306	\$ 1,169	\$ 64	\$ 7,539
Allowance for doubtful accounts	-	-	(10)	(10)
	<b>\$ 6,306</b>	<b>\$ 1,169</b>	<b>\$ 54</b>	<b>\$ 7,529</b>

At December 31, 2016, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 5,616	\$ 232	\$ 35	\$ 5,883
Allowance for doubtful accounts	-	-	(10)	(10)
	<b>\$ 5,616</b>	<b>\$ 232</b>	<b>\$ 25</b>	<b>\$ 5,873</b>

A reconciliation of the beginning and ending amount of allowance for doubtful accounts is as follows:

	December 31 2017	December 31 2016
Allowance for doubtful accounts at beginning of year	\$ (10)	\$ (10)
Amounts written off as uncollectable	-	-
Allowance for doubtful accounts at end of year	<b>\$ (10)</b>	<b>\$ (10)</b>

# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

### December 31 2017

#### 6. INVENTORIES

	December 31 2017	December 31 2016
Materials and supplies	\$ 3,342	\$ 3,087
Diesel fuel	337	299
Liquefied natural gas	103	211
	<b>\$ 3,782</b>	<b>\$ 3,597</b>

#### 7. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
<b>Cost:</b>						
At December 31, 2015	\$ 275,192	\$ 160,494	\$ 15,852	\$ 3,481	\$ 7,507	\$ 462,526
Additions	680	-	138	784	10,667	12,269
Transfers	3,100	2,834	882	-	(6,816)	-
Disposals	-	-	(635)	(311)	-	(946)
At December 31, 2016	\$ 278,972	\$ 163,328	\$ 16,237	\$ 3,954	\$ 11,358	\$ 473,849
Additions	-	-	-	553	12,590	13,143
Transfers	16,274	2,604	1,295	-	(20,173)	-
Disposals	-	-	(189)	(238)	-	(427)
At December 31, 2017	\$ 295,246	\$ 165,932	\$ 17,343	\$ 4,269	\$ 3,775	\$ 486,565
<b>Accumulated depreciation:</b>						
At December 31, 2015	\$ 9,014	\$ 8,210	\$ 1,588	\$ 520	\$ -	\$ 19,332
Depreciation	5,525	4,386	847	285	-	11,043
Disposals	-	-	(635)	(245)	-	(880)
At December 31, 2016	\$ 14,539	\$ 12,596	\$ 1,800	\$ 560	\$ -	\$ 29,495
Depreciation	6,243	4,413	1,253	306	-	12,215
Disposals	-	-	(189)	(187)	-	(376)
At December 31, 2017	\$ 20,782	\$ 17,009	\$ 2,864	\$ 679	\$ -	\$ 41,334
<b>Net book value:</b>						
At December 31, 2016	\$ 264,433	\$ 150,732	\$ 14,437	\$ 3,394	\$ 11,358	\$ 444,354
At December 31, 2017	\$ 274,464	\$ 148,923	\$ 14,479	\$ 3,590	\$ 3,775	\$ 445,231

\* Included in generation depreciation is the annual depreciation for overhauls of \$0 (2016 - \$802,000) which is recognized in regulatory account expenses in Note 18.

The AFUDC capitalized for 2017 was \$466,000 (2016 - \$819,000). The AFUDC rate estimate for 2017 was 2.36% (2016 - 2.40%).

# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

### December 31 2017

#### 8. INTANGIBLE ASSETS

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Software	Deferred Customer Service Costs	Financial Software	Aishihik Water Licensing	Thermal and Water Licensing	Total
<b>Cost:</b>						
At December 31, 2015	\$ 462	\$ 443	\$ 2,406	\$ 3,032	\$ 2,516	\$ 8,859
Additions	66	-	-	955	297	1,318
Disposals	(8)	-	-	-	-	(8)
At December 31, 2016	\$ 520	\$ 443	\$ 2,406	\$ 3,987	\$ 2,813	\$ 10,169
Additions	170	-	-	1,969	109	2,248
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 690	\$ 443	\$ 2,406	\$ 5,944	\$ 2,825	\$ 12,308
<b>Accumulated amortization:</b>						
At December 31, 2015	\$ 61	\$ 128	\$ 568	\$ 1,038	\$ 72	\$ 1,867
Amortization	92	64	283	524	58	1,021
At December 31, 2016	\$ 153	\$ 192	\$ 851	\$ 1,562	\$ 130	\$ 2,888
Amortization	124	64	283	518	64	1,053
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 277	\$ 256	\$ 1,134	\$ 2,068	\$ 97	\$ 3,832
<b>Net book value:</b>						
At December 31, 2016	\$ 367	\$ 251	\$ 1,555	\$ 2,425	\$ 2,683	\$ 7,281
At December 31, 2017	\$ 413	\$ 187	\$ 1,272	\$ 3,876	\$ 2,728	\$ 8,476

The internally generated costs and externally purchased costs for Software and Financial Software are approximately 50% internal and 50% external at December 31, 2017 and December 31, 2016. All other categories are almost exclusively internally generated.



# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

### 9. REGULATORY ACCOUNTS

#### Regulatory deferral account debit balances

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Subtotal see next page
<b>Cost:</b>							
At December 31, 2015	\$ 18,555	\$ 566	\$ 4,360	\$ 1,644	\$ 144	\$ 267	\$ 25,536
Costs incurred	4,869	-	695	1,074	4	1,018	7,660
Regulatory provision	-	-	-	(502)	-	(226)	(728)
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
Contributions received	(825)	-	(1)	-	-	-	(826)
At December 31, 2016	\$ 20,548	\$ -	\$ 4,260	\$ 2,216	\$ 148	\$ 1,059	\$ 28,231
Costs incurred	2,265	-	912	-	-	667	3,844
Regulatory provision	-	-	-	-	-	(267)	(267)
Disposals	(243)	-	(643)	-	-	-	(886)
Contributions received	(715)	-	(100)	-	-	-	(815)
At December 31, 2017	\$ 21,855	\$ -	\$ 4,429	\$ 2,216	\$ 148	\$ 1,459	\$ 30,107
<b>Accumulated amortization:</b>							
At December 31, 2015	\$ 4,344	\$ 453	\$ 1,345	\$ -	\$ -	\$ -	\$ 6,142
Amortization	25	113	248	-	-	-	386
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
At December 31, 2016	\$ 2,318	\$ -	\$ 799	\$ -	\$ -	\$ -	\$ 3,117
Amortization	1,282	-	440	222	30	212	2,186
Disposals	(243)	-	(643)	-	-	-	(886)
At December 31, 2017	\$ 3,357	\$ -	\$ 596	\$ 222	\$ 30	\$ 212	\$ 4,417
<b>Net book value:</b>							
At December 31, 2016	\$ 18,230	\$ -	\$ 3,461	\$ 2,216	\$ 148	\$ 1,059	\$ 25,114
At December 31, 2017	\$ 18,498	\$ -	\$ 3,833	\$ 1,994	\$ 118	\$ 1,247	\$ 25,690
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement in regulatory deferral account balances related to net income on the Statement of Operations and Other Comprehensive Income):							
December 31, 2016	\$ 4,019	\$ (113)	\$ 446	\$ 572	\$ 4	\$ 792	\$ 5,720
December 31, 2017	\$ 268	\$ -	\$ 372	\$ (222)	\$ (30)	\$ 188	\$ 576
<b>Remaining recovery years</b>							
At December 31, 2016	5 to 10 years	0 years	10 to 45 years	Indeterminate	4 years	Indeterminate	
At December 31, 2017	5 to 10 years	0 years	10 to 45 years	Indeterminate	3 years	Indeterminate	
Absent rate regulation, net income for the year and net movement in regulatory deferral account balances on the Statement of Operations and Other Comprehensive Income would increase (decrease) by:							
December 31, 2016	\$ (4,019)	\$ 113	\$ (446)	\$ (572)	\$ (4)	\$ (792)	\$ (5,720)
December 31, 2017	\$ (268)	\$ -	\$ (372)	\$ 222	\$ 30	\$ (188)	\$ (576)

# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

### 9. REGULATORY ACCOUNTS - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	2017 GRA (ix)	Total
<b>Cost:</b>					
At December 31, 2015	\$ 25,536	\$ 1,843	\$ 4	\$ -	\$ 27,383
Costs incurred	7,660	925	-	-	8,585
Regulatory provision	(728)	-	-	-	(728)
Disposals	(3,411)	-	-	-	(3,411)
Contributions received	(826)	-	(6)	-	(832)
At December 31, 2016	\$ 28,231	\$ 2,768	\$ (2)	\$ -	\$ 30,997
Costs incurred	3,844	-	-	-	3,844
Regulatory provision	(267)	-	500	4,319	4,552
Disposals	(886)	-	-	-	(886)
Contributions received	(815)	-	-	-	(815)
At December 31, 2017	\$ 30,107	\$ 2,768	\$ 498	\$ 4,319	\$ 37,692
<b>Accumulated amortization:</b>					
At December 31, 2015	\$ 6,142	\$ -	\$ -	\$ -	\$ 6,142
Amortization	386	-	-	-	386
Disposals	(3,411)	-	-	-	(3,411)
At December 31, 2016	\$ 3,117	\$ -	\$ -	\$ -	\$ 3,117
Amortization	2,186	112	-	-	2,298
Disposals	(886)	-	-	-	(886)
At December 31, 2017	\$ 4,417	\$ 112	\$ -	\$ -	\$ 4,529
<b>Net book value:</b>					
At December 31, 2016	\$ 25,114	\$ 2,768	\$ (2)	\$ -	\$ 27,880
At December 31, 2017	\$ 25,690	\$ 2,656	\$ 498	\$ 4,319	\$ 33,163
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement in regulatory deferral account balances on the Statement of Operations and Other Comprehensive Income):					
December 31, 2016	\$ 5,720	\$ 925	\$ (6)	\$ -	\$ 6,639
December 31, 2017	\$ 576	\$ (112)	\$ 500	\$ 4,319	\$ 5,283
Remaining recovery years					
At December 31, 2016		Indeterminate	1 year	-	
At December 31, 2017		Indeterminate	1 year	1 year	
Absent rate regulation, net income for the year and net movement in regulatory deferral account balances on the Statement of Operations and Other Comprehensive Income would increase (decrease) by:					
December 31, 2016	\$ (5,720)	\$ (925)	\$ 6	\$ -	\$ (6,639)
December 31, 2017	\$ (576)	\$ 112	\$ (500)	\$ (4,319)	\$ (5,283)

#### (a) Regulatory deferral account debit balances

##### (i) Feasibility studies and infrastructure planning

The Utility undertakes certain studies to determine the feasibility of a range of projects and infrastructure proposals. While in progress, the costs of these studies are deferred within this account. The Utility is directed to defer and amortize the costs over terms (between five and ten years) at the discretion of the YUB. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

##### (ii) IFRS planning

These deferred costs are associated with the conversion from previous GAAP to IFRS and are amortized over a term of five years. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 9. REGULATORY ACCOUNTS - continued

##### (iii) Regulatory costs

These costs are associated with the YUB regulatory proceedings. The costs consist primarily of various rate and project review proceedings but also include resource plans, hearing costs from before 2012 and demand side management costs (consumer energy conservation program). The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

##### (iv) Vegetation management

Prior to 2017, the Utility was deferring annual brushing costs in excess of a prescribed maximum annual amount based on a review of prior year brushing costs. In 2017, the Utility established a vegetation management policy and as a result of expected annual costs, deferral is no longer required. The Utility completes a full cycle of all of its brushing requirements every 10 years and is amortizing previously deferred costs over a 10 year period. The impact of this change in estimate resulted in no additional amounts being recorded as additions to this regulatory deferral debit account and \$222,000 being recognized through net movement in regulatory deferral account balances related to net income during the year. This change is consistent with the 2017-2018 GRA. Refer to Note 1b).

##### (v) Dam safety review

The Utility has a program of conducting safety reviews of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are being amortized over five years. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

##### (vi) Uninsured losses

Uninsured losses is an account maintained to address uninsured and uninsurable losses as well as the deductible portion of insured losses. The account is maintained through an annual provision and collected through customer rates. In 2017 the Utility adjusted the annual provision based on past experience. Furthermore, since the account is in a debit balance, the under accrual of the provision will be amortized over a five year period. The impact of this change in estimate resulted in a \$41,000 increase to the regulatory provision and amortization of the prior year accumulated balance of \$212,000. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1b).

##### (vii) Deferred overhauls

YUB Order 2013-01 restricted inclusion of property, plant and equipment overhaul depreciation expense in rates charged to customers until the Utility comes before the YUB for a prudence review. As such, starting in 2013 the Utility deferred depreciation expense related to overhauls. In 2017, the Utility came before the YUB for a prudence review. As such, the Utility began to recognize these costs during the year. The impact of this change in estimate resulted in \$111,000 of amortization of the accumulated balance. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

##### (viii) Fuel price adjustment

OIC 1995/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the long term average prices is deferred and recovered from or refunded to customers in a future period. In 2017 the Utility updated the long term average cost to better reflect current market conditions. The impact of this change resulted in an additional \$450,000 regulatory provision for this regulatory deferral debit account. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1b).



# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

### 9. REGULATORY ACCOUNTS - continued

#### (ix) 2017 GRA for proposed Rate increase

The Utility recognizes a regulatory deferral account debit balance when the Utility has the right, as a result of the actual or expected actions of the rate regulator, to increase rates in future periods in order to recover its allowable costs. The amount recognized represents the Utility's 2017 revenue shortfall based on 2017 forecasted costs plus a fair rate of return and represents management's best judgment and estimate of the expected approval by the YUB. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1b) and Note 4.

#### (x) Deferred gains and losses

Deferred gains and losses represent amounts from disposals of property, plant and equipment. There are no deferred gains or losses during any of the reporting years.

#### Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing reserve (ii)	Diesel Contingency Fund (iii)	Future removal and site Restoration (iv)	Total
<b>Cost:</b>					
At December 31, 2015	\$ 11,602	\$ 561	\$ 10,895	\$ 4,367	\$ 27,425
Costs incurred	-	(138)	-	(8)	(146)
Regulatory provision	-	550	-	-	550
Cash received	-	-	1,054	-	1,054
Cash refunded	-	-	(2,464)	-	(2,464)
At December 31, 2016	\$ 11,602	\$ 973	\$ 9,485	\$ 4,359	\$ 26,419
Costs incurred	-	(3)	-	(56)	(59)
Regulatory provision	-	250	-	-	250
Cash received	-	-	2,118	-	2,118
Cash refunded	-	-	(2,861)	-	(2,861)
At December 31, 2017	\$ 11,602	\$ 1,220	\$ 8,742	\$ 4,303	\$ 25,867
<b>Accumulated amortization:</b>					
At December 31, 2015	\$ 6,111	\$ -	\$ -	\$ -	\$ 6,111
Amortization	263	-	-	-	263
Disposals	-	-	-	-	-
At December 31, 2016	\$ 6,374	\$ -	\$ -	\$ -	\$ 6,374
Amortization	263	194	-	-	457
Disposals	-	-	-	-	-
At December 31, 2017	\$ 6,637	\$ 194	\$ -	\$ -	\$ 6,831
<b>Net book value:</b>					
At December 31, 2016	\$ 5,228	\$ 973	\$ 9,485	\$ 4,359	\$ 20,045
At December 31, 2017	\$ 4,965	\$ 1,026	\$ 8,742	\$ 4,303	\$ 19,036
Net (increase) decrease in regulatory deferral account credit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the statement of operations and other comprehensive income):					
December 31, 2016	\$ 263	\$ (412)	\$ 1,410	\$ 8	\$ 1,269
December 31, 2017	\$ 263	\$ (53)	\$ 743	\$ 56	\$ 1,009
<b>Remaining recovery years</b>					
At December 31, 2016	20 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2017	19 years	Indeterminate	Indeterminate	Indeterminate	
Absent rate regulation, net income for the year end and net movement in regulatory deferral account balances on the Statement of Operations and Other Comprehensive Income would increase (decrease) by:					
December 31, 2016	\$ (263)	\$ 412	\$ (1,410)	\$ (8)	\$ (1,269)
December 31, 2017	\$ (263)	\$ 53	\$ (743)	\$ (56)	\$ (1,009)

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 9. REGULATORY ACCOUNTS - continued

##### (b) Regulatory deferral account credit balances

###### (i) Deferred insurance proceeds

The deferred insurance proceeds represents a gain on fire insurance proceeds related to a fire at the Whitehorse Rapids Generating Station in 1997 which is being amortized to income at the same rate as depreciation of the related replacement assets. In the absence of rate regulation, IFRS requires the gain to have been fully recognized as income in the year received.

###### (ii) Hearing reserve

The Utility has established a deferral account for future regulatory hearing costs. In 2017 the Utility adjusted the annual provision and recognition of the accumulated balance to more accurately reflect expected hearing costs. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1b).

###### (iii) Diesel Contingency Fund and Energy Reconciliation Adjustment

The Diesel Contingency Fund ("DCF") was established by YUB Order 1996-6. The DCF is used to reimburse the Utility for costs associated with diesel generation required when there is a diesel cost variance due solely to water-related hydro and wind generation variances from YUB approved GRA forecasts.

The DCF attracts interest based upon short/intermediate term bond rates. Any negative balance attracts interest at the lowest short-term bond rates available to the Utility through its line of credit. The Utility is required to file quarterly reports with the YUB on the DCF's activity.

In accordance with YUB Order 2015-01, the Utility defers recognition of the additional amounts collected from rate payers when the cost of diesel consumed in the period is less than the long-term average diesel requirements estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the period when the cost of diesel fuel incurred for the period is greater than the long-term average diesel requirements and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- \$8 million for the DCF. If the balance falls outside of this range, the Utility is to make an application to the YUB requesting recovery or a refund to customers. In accordance with YUB Order 2015-06, the Utility is providing a refund to the customers of 0.68 cents/kWh effective September 1, 2015.

In the absence of rate regulation, IFRS would require any amounts earned or incurred related to the DCF to be included in the Utility's net income in the year incurred.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 9. REGULATORY ACCOUNTS - continued

##### (iv) Future removal and site restoration costs

The Utility maintains a regulatory provision for future removal and site restoration related to property, plant and equipment, which is incremental to that required to be recognized as an asset retirement provision under IAS 37. The reserve has been established through amortization rates based upon depreciation studies conducted periodically by the Utility. As a result of YUB Order 2005-12, effective January 1, 2005, the provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory deferral account credit balance if they do not otherwise relate to an asset retirement provision. The period over which the provision will be reduced is dependent on the timing of future costs of demolishing, dismantling, tearing down, site restoration or otherwise disposing of the asset net of actual recoveries, and is therefore indeterminate. In the absence of rate regulation, IFRS requires these costs to be expensed or included in the gain or loss on disposal of the related property, plant and equipment, as applicable.

##### (c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of \$3,844,000 (2016 - \$8,585,000) and regulatory account credit balances of \$59,000 (2016 - \$146,000).

##### (d) Net movement in regulatory deferral account balances related to net income

Net movement in regulatory deferral account balances related to net income is \$6,292,000 (2016 - \$7,908,000) represents the adjustment to net income for the year before net movement in regulatory deferral account balances for the effects of rate regulation in accordance with IFRS 14. The net movement figure of \$6,292,000 is comprised of an increase of \$5,283,000 for regulatory account debit balances and a decrease of \$1,009,000 for regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS. The net movement figure of \$7,908,000 for 2016 is comprised of an increase of \$6,639,000 and \$1,269,000 for regulatory account debit balances and regulatory account credit balances respectively for rate regulation compared to the amounts that would be recorded under IFRS absent rate regulation.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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#### December 31 2017

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#### 10. BANK INDEBTEDNESS

The line of credit accrues interest on withdrawals at prime rate minus 0.75% per annum.

#### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2017	December 31 2016
Trade payables	\$ 7,461	\$ 7,138
Employee compensation	1,328	989
Due to related parties (Note 20)	812	199
Other	220	209
	<u>\$ 9,821</u>	<u>\$ 8,535</u>

#### 12. CONSTRUCTION FINANCING

	December 31 2017	December 31 2016
Construction financing, due December 31, 2017 bearing interest at 1.33% approved to a maximum of \$8.4 million	\$ -	\$ 8,400
Construction financing, due December 31, 2017 bearing interest at 1.40% approved to a maximum of \$14 million	-	13,985
Construction financing, due December 31, 2018 bearing interest at 2.139% approved to a maximum of \$8.4 million	8,400	-
Construction financing, due December 31, 2018 bearing interest at 2.139% approved to a maximum of \$14 million	13,985	-
	<u>\$ 22,385</u>	<u>\$ 22,385</u>

Construction financing balances are monies advanced from the Parent to assist in the development of the Utility's infrastructure. Interest is payable annually at December 31 and at the maturity date.

During the year the Utility did not make any principal repayments. Prior year debt was extinguished and new debt was taken on with no impact on cash flows from financing transactions.

## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

#### December 31 2017

#### 13. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	December 31 2017	December 31 2016
<b>Yukon Development Corporation</b>		
\$92,458,473 term note bearing interest at 2.40% repayable in annual installments of \$3,683,800 principal, plus accrued interest with the balance of \$77,726,473 due December 31, 2019	\$ 81,407	\$ 85,091
\$21,900,000 flexible term note bearing interest up to 5.46% repayable in annual installments of \$336,923 principal, plus accrued interest with the balance of \$8,423,078 due December 31, 2051 (i)	19,878	20,215
\$5,505,000 term note bearing interest at 2.40% interest only payable annually, due December 31, 2039	5,505	5,505
\$20,984,404 term note bearing interest at 2.21% repayable in annual installments of \$839,376 principal, plus accrued interest with the balance due December 31, 2040	19,306	20,145
\$12,136,000 term note bearing interest at 2.10% interest only payable annually, due December 31, 2041	12,136	12,136
<b>TD Bank</b>		
The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Payable in monthly installments of \$50,407 interest and principal with the balance due on December 28, 2022 (ii)	9,348	9,697
<b>Carmacks Stewart First Nation Liability</b>		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non-interest bearing, repayable in varying installments, due in 2028	191	220
	147,771	153,009
Less current portion	5,248	5,238
	\$ 142,523	\$ 147,771

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 13. LONG-TERM DEBT - continued

(i) **\$21,900,000 Flexible Term Note**

The terms of the flexible term note provide for a maximum amount of interest payable within a calendar year, calculated based on the actual grid generation on the electrical grid system connected with the Mayo Hydro Enhancement Project. The amount of interest payable as a result of the interest rate exceeding the maximum interest payable will abate forever. The actual interest rate on this flexible note was 3.68% (2016 - 0.81%).

(ii) **TD Bank Loan and Interest Rate Swap**

On December 28, 2012, the Utility entered into a loan and interest rate swap with TD Bank to arrange financing for the purpose of continuing to develop the electrical infrastructure in the Yukon. The interest rate swap matures December 28, 2022.

**Long-term debt repayment**

Scheduled repayments for all long-term debt are as follows:

2018	\$ 5,218
2019	79,283
2020	1,570
2021	1,570
2022	9,074
Thereafter	51,056
	<hr/>
	<b>\$ 147,771</b>

The change in long-term debt arising from financing activities during the year related to principal repayment of \$5,238. An amount of \$5,248 was reclassified from long-term debt to current portion of long-term debt due to the passage of time.

**Fair value**

The fair value of long-term debt at December 31, 2017 is \$146 million (2016 - \$154 million). The fair value for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 14. POST-EMPLOYMENT BENEFITS

##### Characteristics of benefit plans

The Utility sponsors a defined benefit pension plan for employees joining the Utility before January 1, 2002. The Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan for a former executive. Benefits provided are calculated based on length of pensionable service, pensionable salary at retirement age and negotiated rates.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the employee defined benefit pension plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the employee defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution retirement plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2017, these were \$454,000 (2016 - \$448,000).

The defined benefit pension plan for employees is regulated by the Office of the Superintendent of Financial Institutions (OSFI) through the *Pension Benefits Standards Act* and regulations. This Act and accompanying regulations impose, among other things, minimum funding requirements. The executive defined benefit pension plan and supplemental executive retirement plan are not registered with OSFI and are not subject to minimum funding requirements of the Act.

These minimum funding requirements require the Utility make special payments as prescribed by the OSFI to repay any unfunded liability or deficit that may exist. For the employee defined benefit pension plan the Utility is required to pay \$87,300 as a minimum annual payment over the next 12 years (2016 - \$225,300 over the next 12 years).

A committee of the Utility's Board of Directors oversees these plans and is responsible for the investment policy with regard to the assets of these funds.

##### Risks associated with defined benefit plans

The defined benefit pension plans expose the Utility to risk such as investment risk and actuarial risk. Investment risk is the risk that the assets invested will be insufficient to meet expected benefits. Actuarial risk is the risk that benefits paid will be more than expected. There are no particular unusual, entity-specific or plan-specific risks or any significant concentration of risk.

## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

#### 14. POST-EMPLOYMENT BENEFITS - continued

##### Net defined benefit liability

	December 31 2017	December 31 2016
<b>Present value of benefit obligations</b>		
Balance, beginning of year	\$ 22,980	\$ 20,793
Employee contributions	84	84
Current service cost	543	493
Interest cost	910	868
Benefits paid	(559)	(458)
Actuarial (gains) losses on experience	(755)	539
Actuarial losses on financial assumptions	1,572	661
Balance, end of year	\$ 24,775	\$ 22,980
<b>Fair value of plan assets</b>		
Balance, beginning of year	17,113	15,357
Interest income on plan assets	671	638
Gains on plan assets	688	716
Employee contributions	84	84
Employer contributions	674	781
Benefits paid	(521)	(421)
Administrative costs	(50)	(42)
Balance, end of year	18,659	17,113
Net defined benefit liability	\$ 6,116	\$ 5,867

##### Components of benefit plan cost:

	December 31 2017	December 31 2016
Current service cost	\$ 543	\$ 493
Interest cost	910	868
Interest income on plan assets	(671)	(638)
Administrative costs	50	42
Defined benefit expense in Statement of Operations	832	765
Defined contribution expense	454	448
Total benefit expense in Statement of Operations	\$ 1,286	\$ 1,213
Actuarial losses on obligation	816	1,200
Gains on plan assets	(688)	(717)
Total re-measurements included in Other Comprehensive Income	128	483
Total benefit costs recognized in Statement of Operations and Other Comprehensive Income	1,414	1,696

# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

### 14. POST-EMPLOYMENT BENEFITS - continued

#### Distribution of plan assets of defined benefit pension plans

The fair value of the defined benefit pension plans' assets are based on market values as reported by the defined benefit pension plans' custodians as at each applicable Statement of Financial Position date. The distribution of assets by major asset class is as follows:

	December 31, 2017	December 31, 2016
Equities	51.8%	54.9%
Fixed income securities	38.5%	35.9%
Real estate	9.7%	9.2%

#### Significant assumptions:

	December 31, 2017	December 31, 2016
Discount rate - accrued benefit obligation	3.40 - 3.50%	3.90 - 4.00%
Assumed rate of salary escalation	2.80 - 3.50%	2.80 - 3.50%
Pension growth	2.00 - 2.50%	2.00 - 2.50%

#### Sensitivity analysis of the defined benefit pension plans:

The sensitivities of each key assumption used in measuring accrued benefit obligations at each Statement of Financial Position date have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously. The sensitivity analysis has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period. The mortality assumptions are based on the 2014 Canadian Pensioner Mortality Private Table projected with full generational mortality improvements using scale B.

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2017

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.29%	18.14%	\$ (3,540)	\$ 4,494
Salary growth	2.18%	-2.07%	508	(483)
Pension growth	14.48%	-11.93%	3,378	(2,784)
Life expectancy (1 year movement)	2.63%	-2.64%	652	(655)

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2016

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.10%	17.97%	\$ (3,241)	\$ 4,129
Salary growth	2.55%	-2.41%	550	(521)
Pension growth	14.25%	-11.74%	3,071	(2,537)
Life expectancy (1 year movement)	2.41%	-2.43%	555	(559)



# Yukon Energy Corporation

## Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

### 14. POST-EMPLOYMENT BENEFITS - continued

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same that is applied in calculating the defined benefit obligation liability recognized in the Statement of Financial Position.

The Utility pays the balance of the cost of the employee benefit plan over the employee contributions, as determined by the actuary. Members are required to contribute 3.5% of earnings up to the Year's Maximum Pensionable Earnings (YMPE) plus 5% of earnings above the YMPE. Permanent part-time members will have required contributions as above multiplied by their permanent part-time service ratio. Employees can make additional contributions to purchase ancillary benefits. Members choose the ancillary benefit on termination of service or on retirement.

The average duration of the benefit obligation is 16.0 years (2016 - 16.0 years). The Utility expects to make payments of \$682,000 (2016 - \$706,000) to the defined benefit plans during the next financial year.

### 15. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Government of Canada	Parent since 1998	Customer since 1998	Yukon Government since 1998	Pre-1998 contributions	Total
<b>Cost:</b>						
At December 31, 2015	\$ 71,000	\$ 91,810	\$ 24,579	\$ 11,040	\$ 1,739	\$ 200,168
Additions	-	-	274	58	-	332
At December 31, 2016	\$ 71,000	\$ 91,810	\$ 24,853	\$ 11,098	\$ 1,739	\$ 200,500
Additions	-	-	41	293	-	334
At December 31, 2017	\$ 71,000	\$ 91,810	\$ 24,894	\$ 11,391	\$ 1,739	\$ 200,834
<b>Accumulated amortization:</b>						
At December 31, 2015	\$ 4,039	\$ 7,911	\$ 8,761	\$ 1,625	\$ 1,292	\$ 23,628
Amortization	990	1,680	1,179	209	44	4,102
At December 31, 2016	\$ 5,029	\$ 9,591	\$ 9,940	\$ 1,834	\$ 1,336	\$ 27,730
Amortization	991	1,612	1,255	215	43	4,116
At December 31, 2017	\$ 6,020	\$ 11,203	\$ 11,195	\$ 2,049	\$ 1,379	\$ 31,846
<b>Net book value:</b>						
At December 31, 2016	\$ 65,971	\$ 82,219	\$ 14,913	\$ 9,264	\$ 403	\$ 172,770
At December 31, 2017	\$ 64,980	\$ 80,607	\$ 13,699	\$ 9,342	\$ 360	\$ 168,988

The sources of contributions received prior to 1998 were not recorded separately.

## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

#### December 31 2017

#### 16. DECOMMISSIONING FUND

	December 31 2017	December 31 2016
Opening balance	\$ 2,636	\$ 2,612
Interest	29	24
Closing balance	\$ 2,665	\$ 2,636

#### 17. SALES OF POWER

	2017	2016
Wholesale	\$ 31,516	\$ 28,641
Industrial	5,298	4,506
General service	4,924	4,359
Residential	2,494	2,040
Secondary sales	635	371
Sentinel and street lights	104	96
	\$ 44,971	\$ 40,013

#### 18. OPERATIONS AND MAINTENANCE EXPENSES

	2017	2016
Wages and benefits	\$ 6,242	\$ 5,955
Regulatory account expenses (Note 9 (c))	3,903	8,731
Contractors	3,024	1,692
Fuel	2,911	1,168
Materials and consumables	1,335	1,173
Rent	492	234
Travel	352	311
Communication	69	58
	\$ 18,328	\$ 19,322

## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

#### 19. ADMINISTRATION EXPENSES

	2017	2016
Wages and benefits	\$ 5,771	\$ 5,737
Insurance and taxes	1,816	1,812
External labour	1,231	1,189
Materials, consumables and general	1,007	2,273
Licences and fees	711	658
Travel	181	171
Board fees	55	83
	<b>\$ 10,772</b>	<b>\$ 11,923</b>

#### 20. RELATED PARTY TRANSACTIONS

The Utility is related in terms of common ownership to all YG departments, agencies and Territorial Corporations. Transactions are entered into in the normal course of operations with these entities. All sales of power transactions are recorded at the rates approved by the YUB.

Interim Electrical Rebate program revenues are received from YDC in accordance with terms established by YG which established the program to protect certain ratepayers. These revenues are included in sales of power on the Statement of Operations and Other Comprehensive Income.

The following table summarizes the Utility's related party transactions with YDC for the year:

	2017	2016
<b>Revenue</b>		
Sales of service	\$ 4	\$ 6
Rate subsidy	289	299
Funding	565	825
<b>Operating expenses</b>		
Interest expense	\$ 3,957	\$ 3,220
<b>Dividend paid</b>	\$ -	\$ 2,841
<b>Other receipts</b>		
Construction financing	-	8,400
<b>Other payments</b>		
Repayment of long-term debt	\$ 4,860	\$ 4,860

During the year, the Utility refinanced its construction financing (Note 12).



## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

#### December 31 2017

#### 20. RELATED PARTY TRANSACTIONS - continued

Funding from YDC of \$565,000 is for feasibility studies for the Stewart Keno Transmission Line.

At the end of the year, the amounts receivable from and due to related parties are as follows:

	December 31 2017	December 31 2016
YDC		
Accounts receivable	\$ 30	\$ 28
Accounts payable	770	167
Construction financing	22,385	22,385
Current portion of long-term debt	4,860	4,860
Long-term debt	133,373	138,233
YG		
Accounts receivable	\$ 343	\$ 62
Accounts payable	42	32

These balances are non-interest bearing and payable on demand except for construction financing and long-term debt.

#### Transactions with Key Management Personnel

The Utility's key management personnel include members of the senior management team and the Board of Directors, a total of 15 individuals (2016 - 18 individuals). Key management personnel compensation is as follows:

Year ended December 31	2017	2016
Short-term employee benefits	\$ 1,466	\$ 1,537
Post-employment benefits	163	59
	\$ 1,629	\$ 1,596

#### 21. COMMITMENTS

##### Aishihik water licence

The Yukon Water Board issued a water use licence in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this licence commits the Utility to meet a number of future requirements including annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 21. COMMITMENTS - continued

##### **Contractual obligations**

The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2017 as the product or service had not been provided. The total commitments at year end are \$4,813,000 (2016 - \$1,754,000).

##### **Power Purchase Agreement**

On November 9, 2017, the Utility entered into a Power Purchase Agreement (PPA) with Victoria Gold Corporation and Stratagold Corporation (collectively known as VGC Group). The PPA details the rights and obligations of each party in an agreement to permit VGC Group to connect its industrial mine site in the Mayo district to the Utility's grid. Power sales to the industrial mine are estimated to contribute \$100-million in additional revenues to the Utility over the expected ten year mine life. The agreement commits VGC to covering the full costs of connecting to the Utility's main line, the Utility's negotiating expenses and required system improvements. The Utility is expected to incur \$118,621 in monthly fixed costs related to this agreement. These amounts will be collected through a monthly fixed rate charge from VGC.

The agreement was conditional on approval by the YUB and confirmation of VGC receipt of financing to move on to the next phase of construction. On March 6, 2018, the YUB accepted the PPA as presented and specifically approved those provisions related to required investment and rate schedule impacts. Additionally, on March 8, 2018, VGC Group advised the Utility that they had achieved the condition precedent related to the requirement for mine construction financing.

The mine is expected to connect to the grid by approximately mid-2019.

#### 22. CONTINGENCIES

##### **Aishihik Third Turbine Project**

This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for \$4,000,000 plus interest and costs alleging the Utility has not paid for work performed. During 2016, the judge awarded the plaintiff \$1,682,000 of which \$1,308,000 had already been accrued for in the financial statements. The Utility was also required to reimburse the plaintiff for its legal costs and interest. The Utility recognized an estimate for this amount as a liability in the 2016 Statement of Financial Position. Legal cost and interest were paid in 2017. The Utility has appealed the decision. The outcome of the appeal is not determinable at this time and no estimate of appeal settlement has been recognized in the financial statements.

##### **Asset Retirement Obligations**

The Utility has not recognized a provision for the closure and restoration obligations for certain generation, transmission and distribution assets which the Utility anticipates maintaining and operating these assets for an indefinite period, making the date of retirement of these assets indeterminate. These significant uncertainties around the timing of any potential future cash outflows are such that a reliable estimate of the liability is not possible at this time. A provision will be recognized when the timing of the retirement of these assets can be reasonably estimated.



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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 23. PROVISION FOR ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

The Utility has conducted environmental site assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2017 no new provisions for environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis. The Utility does not have a provision for environmental liabilities as there is no present obligation to remediate.

#### 24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2017, the Utility's financial instruments included cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, construction financing, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 13.

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. The Utility's interest rate swaps are classified as held for trading and are recognized at their fair value on the date the contract has been entered into. Any subsequent unrealized and realized gains and losses are reported in net income during the period in which the fair value movement occurred. The fair value of the interest rate swaps is estimated using standard market valuation techniques and is provided to the Utility by the financial institution that is the counterparty to the transactions.

The Utility did not engage in any other hedging transactions.

##### Interest rate risk

Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Utility's future cash flows are not exposed to significant interest rate risk due to its long-term debt having fixed interest rates, with the exception of the Bankers' Acceptances from the TD Bank. The Bankers' Acceptances have had the variable rate converted to a fixed rate using an interest rate swap to eliminate the interest rate risk.

As at December 31, 2017, the Utility had an interest rate swap agreement in place with a notional principal amount of \$9.3 million (2016 - \$9.7 million). The agreement effectively changes the Utility's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%.



## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

#### 24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

##### Interest rate risk - continued

The fair value of the interest rate swap agreement on December 31, 2017 was a liability of \$56,000 (2016 - liability of \$409,000). The increase in the fair value in 2017 of \$353,000 (2016 - increase of \$144,000) is recognized on the Statement of Operations and Other Comprehensive Income as an unrealized gain. A 100 basis point increase or decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of \$401,000 (2016 - \$498,000).

The Utility has access to a \$10 million line of credit. Effective August 25, 2017, the line of credit was increased temporarily to \$22 million. The temporary increase expires August 24, 2018. The account accrues interest on withdrawals at prime rate minus 0.75% per annum. By agreement the financial institution has a legally enforceable right to set off the outstanding balance under the line of credit by cash balances in other accounts with the same bank. The amount outstanding on the line of credit balance at year end was \$10.1 million (2016 - \$2.5 million). The Utility has cash balances with the same financial institution of \$2.8 million (2016 - \$2.8 million). Due to the short-term nature of the amount drawn on the line of credit and the Utility's cash balances with the same financial institution, the interest rate risk is minimal.

##### Credit risk

Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Utility.

The following table illustrates the maximum credit exposure to the Utility if all counterparties defaulted:

	December 31 2017	December 31 2016
Cash	\$ 240	\$ 551
Accounts receivable	7,529	5,873
	\$ 7,769	\$ 6,424

Credit risk on cash is considered minimal as the Utility's cash deposits are held by a Canadian Schedule 1 Chartered bank.

Credit risk on accounts receivable is considered minimal as the Utility has experienced insignificant bad debt in prior years. In addition, its primary customer is a rate regulated utility that purchases power from the Utility for resale and as such these receivables are considered fully collectible. Included in the accounts receivable past due but not impaired at December 31, 2017 are \$1,213,000 (2016 - \$257,000) which management believes will be received in full.

##### Liquidity risk

Liquidity risk is the risk that the Utility will not be able to meet its financial obligations as they fall due. The Utility manages liquidity risk through regular monitoring of cash and currency requirements by preparing cash flow forecasts to identify financing requirements. The Utility's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Utility's reputation.

## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

#### 24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

##### Liquidity risk - continued

The Utility's largest current liability is current portion of long-term debt which is predominantly due to the Parent. In addition, rate regulation assists the Utility with liquidity management by providing consistent revenues and a consistent debt to equity ratio.

##### Fair values

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2017:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$56	-	\$56
Long-term debt	-	-	\$148,000	\$148,000

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2016:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$409	-	\$409
Long-term debt	-	-	\$154,000	\$154,000

#### 25. CAPITAL MANAGEMENT

The Utility's capital is its shareholder's equity which is comprised of share capital, contributed surplus and retained earnings. The Utility manages its equity by managing revenues, expenses, assets and liabilities to ensure the Utility effectively achieves its objectives while remaining a going concern.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Short-term debt related to assets under construction at the Statement of Financial Position date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning of the Minto Mine spur line has been added (Note 16). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the Statement of Financial Position. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

The Utility has a policy which defines its capital structure at a ratio of 60% debt and 40% equity. This policy has been reviewed and accepted by the YUB.

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

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December 31 2017

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#### 25. CAPITAL MANAGEMENT - continued

The table below summarizes the Utility's total debt to total capitalization position:

	December 31	
	2017	2016
Long-term debt due within one year	\$ 5,248	\$ 5,238
Long-term debt	142,523	147,771
Total debt	147,771	153,009
Add provision for decommissioning of industrial customer spur line	2,665	2,636
Total debt to include in the calculation	\$ 150,436	\$ 155,645
Share capital	\$ 39,000	\$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	61,367	51,034
Total shareholder's equity	114,967	104,634
Total capitalization	\$ 265,403	\$ 260,279
Total debt to total capitalization	57 %	60 %

There were no changes in the Utility's approach to capital management during the period.









**YUKON  
ENERGY**

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