yukon energy

ANNUAL REPORT 2018

who we are

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arms-length from the Yukon government. We are the main generator and transmitter of electrical energy in Yukon. We work with our parent company, Yukon Development Corporation, to provide Yukoners with reliable, sustainable and cost-effective power.

There are over 21,000 electricity consumers in the territory. Yukon Energy directly serves over 2,200 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to most other Yukon communities through ATCO Electric Yukon. ATCO buys wholesale power from us and sells it to retail customers in the territory.

Most of the electricity we produce is renewable, coming primarily from hydro resources generated at our Whitehorse, Aishihik and Mayo hydroelectric facilities. A small amount of LNG and diesel is also used to ensure reliable and cost-effective electricity is available when it's needed at peak times, during emergencies and when renewable sources of electricity are not available.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo and Dawson City.

Whitehorse dam *Photo: Archbould.com*

Mission

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

Values

» Safety
» Accountability
» Continuous Improvement
» Teamwork
» Professionalism
» Good Corporate Citizenship

Vision

To establish a sustainable legacy for Yukon's future

Environmental Benefits Statement

This report is printed on 100 percent postconsumer waste material. It is Forest Stewardship Council™ Canada certified, processed chlorine free, alkaline pH, and meets the credibility of Canadian Standards Association (CSA) for longevity.

By using this paper, Yukon Energy saved the following resources based on a copy run of 50 reports:

Wood Use: 450 kg

Water: 1,850 L

Energy: 300 kWhr

Solid Waste: 25 kg

Greenhouse Gases: 62.50 kg CO2 equiv.

Cover photo: Archbould.com

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message to yukoners

Yukon Energy is an industry leader in sustainable energy production in Canada with more than 90 per cent of our electricity being renewable.

We remain committed to increasing the amount of renewable electricity we generate, however at the same time, we are facing some unique challenges. The Yukon is growing and Yukon Energy is attracting more customers while our generating facilities and transmission infrastructure are aging. We must generate more energy and build more generation capacity if we are to meet future residential and industrial demand for electricity and continue to provide reliable and affordable power to Yukoners.

In 2018, much of our time and energy was devoted to working with industry partners, Yukon First Nations and all levels of government to increase the availability of renewable energy solutions, reduce reliance on non-renewable sources, lessen energy consumption in the Yukon, and strengthen the reliability of our isolated electricity grid.

Our accomplishments over the year included:

» Developing a new Five-Year Strategic Plan for the Corporation;

» Working with Yukon government and ATCO Electric Yukon to launch the Standing Offer Program of the government's Independent Power Production Policy;

» Securing Federal funding for a pilot test of residential demand response technologies to shift peak electricity demand in customer homes;

» Refurbishing our backbone 138 kV transmission lines between Aishihik, Whitehorse and Carmacks;

» Installing a third LNG engine in Whitehorse to better equip us to meet peak demands for electricity;

» Beginning work to increase the amount of electricity we're able to generate out of our existing Whitehorse hydro facility;

» Kicking-off preliminary planning work on the development of new mid-scale hydro facilities.

As we look ahead to 2019, our focus remains on building and delivering projects that enable Yukon's prosperity with renewable, cost-effective and reliable electricity.

This means addressing the capacity issue we face head-on by working on a portfolio of solutions including upgrades at our Whitehorse hydro facility; enhancements to our existing hydro storage capabilities; two proposed hydro developments; a grid-scale battery; a new LNG, diesel or dual-fuel generation facility; and a suite of energy conservation programs. We will also be starting work to update our 2016 Resource Plan.

This is an exciting time for Yukon Energy and we look forward to reporting back to you on our continued progress in future reports.

Lesley Cabott
Chair, Yukon Energy Corporation
Board of Directors

Dawson City under a full moon. *Photo: Archbould.com*

president's welcome

I am pleased to present the 2018 Yukon Energy Annual Report.

During our last public survey completed in 2016, Yukoners told us that when it comes to future energy projects, they care most about environmental protection, then cost, then reliability, and finally social responsibility. These values are important to us too and are now the pillars in which we measure all of our planning and operational activities.

I am proud to say that in 2018, our customers experienced fewer power outages than the year prior. One contributing factor of this was the lower number of controllable outages – outages caused by loss of generation, equipment failure or human error – we had in 2018 compared to 2017. I believe this is a true testament of our team's commitment to operating and maintaining our electric system with the highest level of care and attention.

Electricity rates in Yukon remain the lowest across Canada's North. Although we submitted an application in 2017 to our regulator, the Yukon Utilities Board, for our first rate increase since 2013, the Board did not deliver a decision on that application this past year.

Rate applications are always rigorous. The process includes multiple stage gate reviews and opportunities for governments, industry experts and the public to review, analyze and ask questions of the utility's proposal and to provide counter arguments. I hope this instills confidence in you that rate increases – when they do happen – have been carefully scrutinized by a number of different parties and found to be just and in the best interest of all customers.

This past year also had its fair share of challenges too, the largest being low water levels at our Mayo and Aishihik hydro facilities. Water levels at these facilities at different points in 2018 were the lowest they had been since the late 1990s. As a result, we ended up needing to use more liquefied natural gas (LNG) to generate electricity and meet customer demands for power.

Through it all, our team of professional and dedicated employees and Board of Directors continued to work extremely hard to advance the goals that we set out for ourselves and the company at the start of the year, and to give back to the communities and people we are privileged to serve.

Andrew Hall
President and CEO

Photo: Archbould.com

2018 at a glance

Generating capacity

129 MEGAWATTS in the summer

116 MEGAWATTS in the winter*

*caused by a lower supply of hydro resources during winter months

Electricity supplied

450 GIGAWATT HOURS

Peak demand

93 MEGAWATTS

(recorded on February 5, 2018)

Renewable generation

92 PER CENT

Reportable motor vehicle incidents

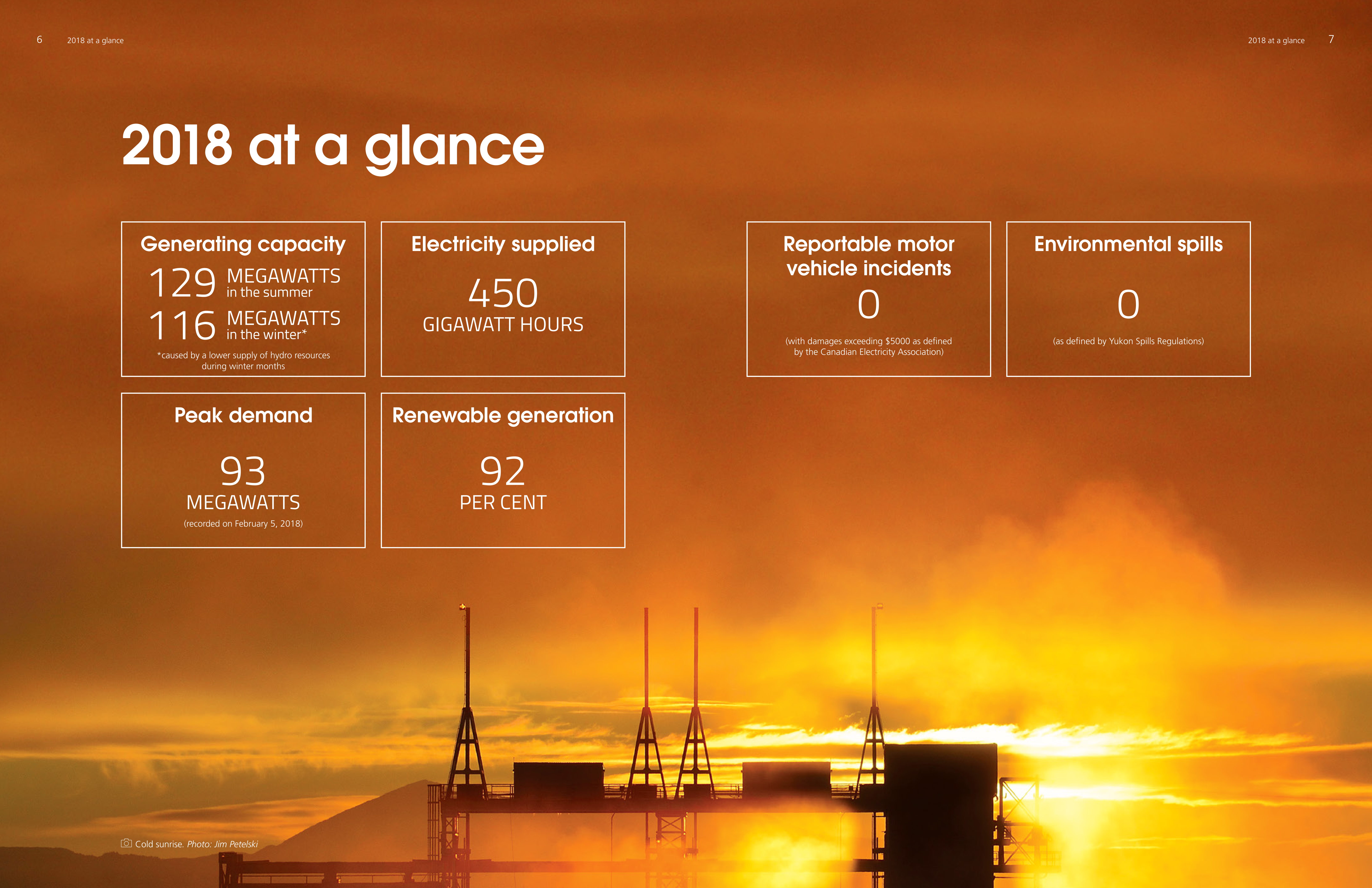
0

(with damages exceeding $5000 as defined by the Canadian Electricity Association)

Environmental spills

0

(as defined by Yukon Spills Regulations)



Cold sunrise. *Photo: Jim Petelski*

2018 strategic priorities and performance

STRATEGIC PRIORITY	PERFORMANCE
Achieve an All Injury Frequency Rate of 1.0 or less	In 2018, we had an All Injury Frequency Rate of 2.5, compared to 5.1 in 2017. We are trending in the right direction, but there is still work to be done.
Achieve a Reportable Motor Vehicle Incident Rate of 0	Achieved.
Achieve 10 or less Controllable Outages	We had 12 controllable outages in 2018, compared to 16 in 2017.
Achieve a Return on Equity of 7.35%	The 2018 Return on Equity was 6.54%, down from 8.32% in 2017.
Complete installation of third LNG unit on time and on budget	Achieved. The third unit was installed on time and on budget.

STRATEGIC PRIORITY	PERFORMANCE
Complete 2018 scope of the Transmission Refurbishment project on time and on budget	Achieved. 2018 work was completed on time and on budget.
Develop and implement a Generation Resource Management Process	Achieved. We implemented industry best practices to monitor and forecast inflows to our reservoirs which will help maximize generation of renewable electricity.
Complete key deliverables for the first year of our Asset Management Program	Achieved. In 2018, we made good progress in developing an asset management framework consistent with best practices. Work remains to expand and implement the framework over the next few years.
Confirm path forward for addressing long-term energy and capacity requirements	In 2018, we began planning for upgrades to increase the output of our Whitehorse hydro facility.
Develop expanded Demand Side Management Program	We completed scoping of future demand side management programs and entered into discussions with Energy Solutions Centre about working together to deliver the programs. We also secured federal funding for a pilot test of residential demand response technologies to shift peak electricity demand in customer homes.
Submit an Aishihik Relicensing Application to the Yukon Environmental and Socio-economic Assessment Board with support from the Champagne and Aishihik First Nations	There was a delay as we continue to work with the Champagne and Aishihik First Nations on this application. We submitted an application for a 3-year license renewal in early 2019.

health, safety and environment

Health and Safety

The health and safety of our people and customers are part of every decision we make and every action we take.

» Achieved an overall score of 95% on our 2018 COR Audit

» Provided more than 28 safety orientations to staff and more than 379 individual orientations for contractors and consultants

» 90% of Yukon Energy employees attended at least one safety meeting a month

» More than 50% of Yukon Energy staff chose to utilize the company's wellness subsidy

» Implemented initiatives to improve employee communication and enhance teamwork within and across departments

Inspecting Aishihik hydro. *Photo: Archbould.com*

Sustainability and Environment

We are committed to limiting the impact of our operations on the environment and promoting biodiversity.

» Zero reportable environmental spills in 2018

» Raised and released about 150,000 Chinook Salmon from our Whitehorse Rapids Fish Hatchery

» About 60,000 Rainbow Trout, 30,000 Arctic Char and 80,000 Kokanee Salmon were raised at the Whitehorse Rapids Fish Hatchery

» Continued support of community stewardship initiatives such as the:

- Celebrations of Swan Festival
- Fox Creek Salmon Habitat Enhancement Program
- Salmon conservation programs and fry release at Wolf Creek and Mayo River
- Yukon River Salmon Migration Study in partnership with Canadian Wildlife Federation, Carleton University, Carcross/Tagish First Nation and Kwanlin Dün First Nation

» Partnered with the National Institute of Scientific Research (INRS) and Yukon College to monitor and assess the long-term effects of climate change in our hydro reservoirs

At the fish ladder. *Photo: Archbould.com*

customers, community and partnerships

Customers

We are committed to providing sustainable, reliable, affordable and safe electricity service to our customers.

OUTAGES

Total Number of System Outages in 2018: 34

Top Causes of System Outages in 2018:

- Equipment malfunction
- External interference (third-party contact and wildlife)
- Adverse weather
- Planned outages

CUSTOMER RATES

Electricity rates in Yukon remain the lowest of Canada's three territories.*

CUSTOMER CONNECTIONS

Total Number of New Customer Connections in 2018: 50 (2% of 2017 customer base)

Total Number of New Micro-generation Customers Connected in 2018: 3

OTHER MILESTONES

Executed a Power Purchase Agreement with Victoria Gold and began planning for the system protection regime to incorporate the Eagle Gold Project onto the grid.

*Source: Northwest Territories Power Corporation General Rate Application, 2016/19; Qulliq Energy Corporation 2018/19 General Rate Application; Quebec Hydro.

Photo: Archbould.com

Community

We believe in giving back and being active members in the communities we are privileged to serve.

» Provided $85,000 to a variety of community groups across Yukon in the areas of:
  - Arts, Culture and Tourism
  - Sports & Recreation
  - Health, Social Services and Education
  - Sustainable Development

» Awarded $12,000 in post-secondary education scholarships

Partnerships

We are committed to enriching and building partnerships with Yukon First Nations, industry partners and all levels of government.

» Advanced our Progressive Aboriginal Relations (PAR) Committed designation by implementing a First Nation Procurement Policy and First Nation Recruitment Policy.

» Co-hosted and organized the Canadian Electricity Association's (CEA) Partnering in Energy Development Symposium with ATCO Electric Yukon at the Carcross Learning Centre.

The forum focused on partnership opportunities with First Nations and included presentations by the Federal Minister of Innovation, Science and Economic Development, Premiers of Yukon and N.W.T., the Council of Yukon First Nations Grand Chief, First Nation Chiefs and Development Corporation delegates, Independent Power Production proponents and utility leaders.

» Collaborated with ATCO Electric Yukon and Yukon government on the Standing Offer Program of the government's Independent Power Production (IPP) Policy.

Progressive Aboriginal RELATIONS COMMITTED
Canadian Council for Aboriginal Business

Canadian Electricity Association Symposium in Carcross, Yukon. *Photo: Archbould.com*

management discussion and analysis

Our business is the generation and transmission of electrical energy to most of Yukon. We strive for energy production that is reliable, sustainable and cost-effective. 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.

Monitoring gauges. *Photo: Archbould.com*

Core business and strategy

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

1. SUSTAINABILITY

Yukon Energy 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. Yukon Energy 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, Yukon Energy is committed to developing renewable resources while recognizing the limitations of certain forms of renewable generation in meeting the energy and capacity needs of Yukon's isolated grid. Thermal generation will continue to play an important role in meeting peak electricity demand cost effectively, and providing insurance against contingent events such as drought and outages of key hydro facilities. Yukon Energy 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

Yukon Energy 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 decision bodies and potential energy proponents, partners and investors. We seek to leverage Yukon Energy'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 Yukon Energy's First Nations Employment and Procurement policies. Yukon Energy 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

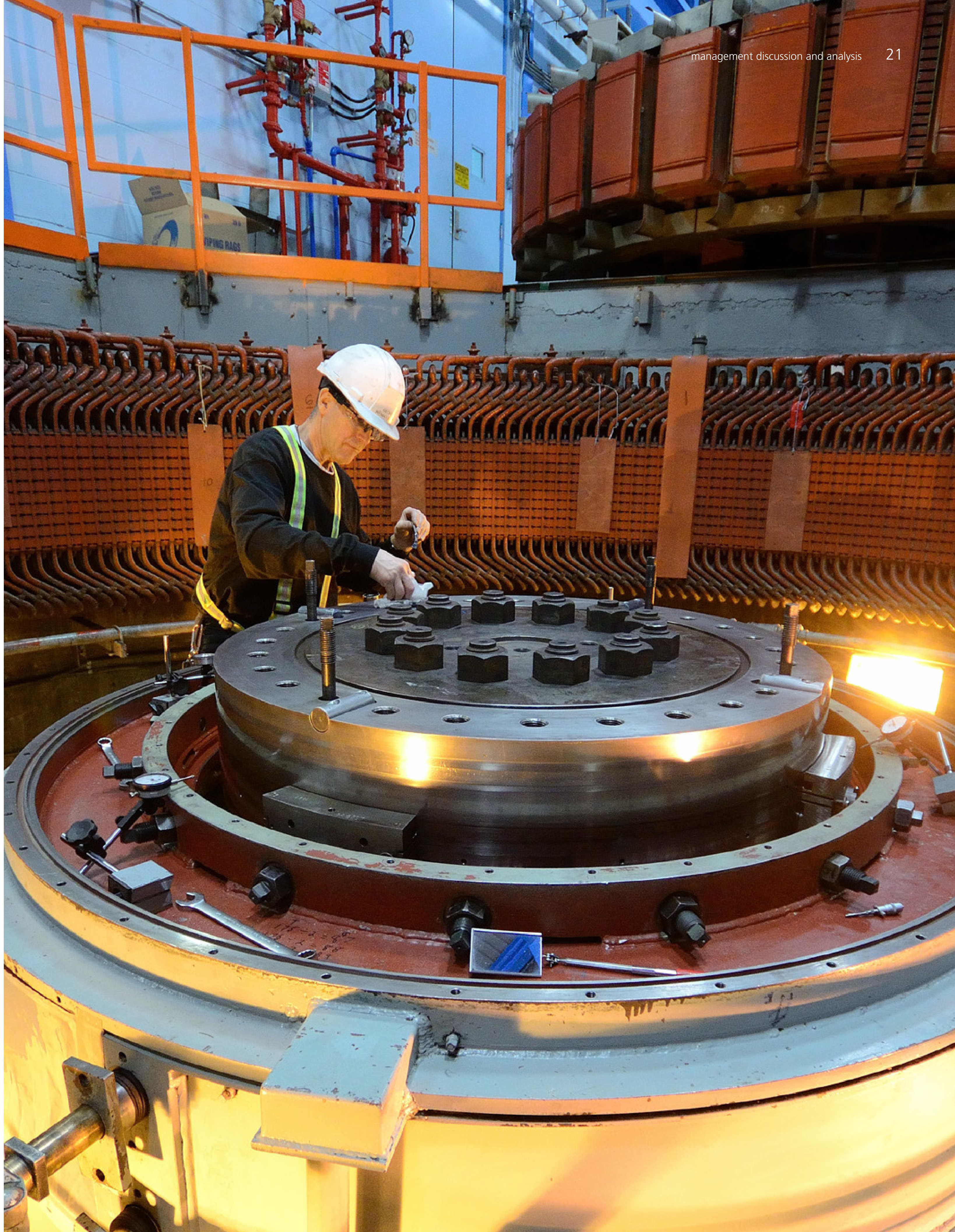
Given the rate pressures faced by Yukon Energy's customers and the prospect for future rate increases driven by the Corporation's capital investment needs, disciplined financial management of our operating and project-related business is essential. Yukon Energy is also committed to continuous improvement as a management philosophy to drive sustained improvements in our operational performance and efficiency.

4. RIGOROUS AND PROACTIVE PLANNING

Yukon Energy applies industry best practices and processes for the planning of future capital investments required to sustain the Corporation's aging 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. Yukon Energy 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, Yukon Energy 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 Yukon Energy's ambitious plans remains a key strategic priority.



Maintaining hydro units in Whitehorse. *Photo: Jim Petelski*

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, liquidity, and capital resources.

We continue to develop human resources policies to adapt to our seasoned workforce.

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 2019 and are in the process of securing these resources.

Through established policies and procedures Yukon Energy maintains a capital structure ratio of 60 per cent long term debt and 40 per cent 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. As well, the Corporation has started a multi-year project to implement a formal asset management system to ensure optimization of maintenance and capital resourcing.

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 2018 fiscal year was $6.1 million, $4.4 million less than the previous year. The decrease in net income was primarily due to a broad increase in operations and maintenance expenditures.

Revenue from sale of power was $48.0 million; $3.0 million higher than the prior year due to an increase in all power sales categories resulting from increased rates and higher non-industrial consumption.

The regulated rate of return on equity for 2018 is 6.54 per cent, down from 8.32 per cent the prior year.

Outlook

Net income for 2019 is forecast to decrease by $0.5 million due to an increase in fuel and operations and maintenance costs. Projected revenue from power sales is forecast to increase by $2.4 million.

The forecast return for 2019 is 5.96 per cent, 2.74 per cent less than the Return on Equity that we were approved in our 2017-2018 GRA of 8.70 per cent.

Yukon Energy is planning for a General Rate Application (GRA) for 2019-2020. The GRA will give us the opportunity to adjust rates to reflect the Corporation's cost requirements and capital plans.

Risk management

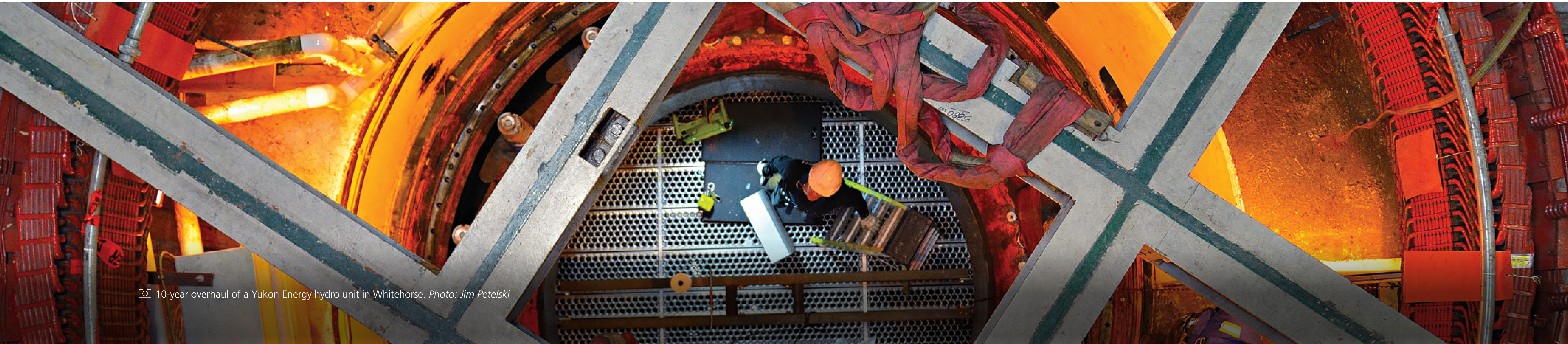
Yukon Energy is exposed to numerous risks in providing service to our customers. Risk impacts include staff and public safety, financial, reputation, physical plant, stakeholder relationships, environment, and regulatory. These risks can range in scale from minor to catastrophic. Yukon Energy endeavors 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, Cyber 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, Employee Recruitment & Retention, and Inadequate Energy Supply. 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.



10-year overhaul of a Yukon Energy hydro unit in Whitehorse. *Photo: Jim Petelski*

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 four of our most important performance drivers.

1. HEALTH AND SAFETY

Given the nature of our industry, the Corporation takes health and safety seriously. The two primary indicators for measuring success in this area are:

a. All Injury Frequency Rate, and

b. Reportable Motor Vehicle Incidents.

With respect to the former, the Corporation failed to meet its target of an All Injury Frequency Rate of 1.0 or lower, however, the 2018 rate of 2.5 is an improvement from 2017 and 2016.

In 2018 Yukon Energy had 0 Reportable Motor Vehicle Incidents – incidents defined by the Canadian Electricity Association as those with damages that exceed $5000. The company recognizes that we had 3 preventable vehicles incidents in 2018 (each with damages less than $5000) and that work remains to be done to lower these types of incidents.

2. 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 while maintaining the financial integrity of the utility, including a return on invested capital.

3. 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.

4. 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.

Photo: Archbould.com

financial statements

December 31, 2018

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Utility contained in this annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards 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 assure 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 7, 2019

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Yukon Energy Corporation (the Corporation), which comprise the statement of financial position as at 31 December 2018, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Yukon Energy Corporation coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations and the articles and by-laws of the Yukon Energy Corporation.

In our opinion, the transactions of the Yukon Energy Corporation that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Yukon Energy Corporation's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Yukon Energy Corporation to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

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

Vancouver, Canada
7 May 2019

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

As at	December 31 2018	December 31 2017
Assets		
Current		
Cash	$ 581	$ 240
Accounts receivable (Note 5)	6,873	7,529
Inventories (Note 6)	3,709	3,762
Prepaid expenses	661	678
	11,824	12,229
Non-current		
Property, plant and equipment (Note 7)	451,893	445,231
Intangible assets (Note 8)	10,584	8,476
Total assets	**474,301**	465,936
Regulatory deferral account debit balances (Note 9)	34,788	33,163
Total assets and regulatory deferral account debit balances	**$ 509,089**	$ 499,099
Liabilities		
Current		
Bank indebtedness (Note 10)	$ -	$ 7,294
Accounts payable and accrued liabilities (Note 11)	11,088	9,821
Construction financing (Note 12)	22,385	22,385
Current portion of deferred revenue (Note 16)	1,700	-
Derivative related liability (Note 24)	-	56
Current portion of long-term debt (Note 13)	80,210	5,248
	115,383	44,804
Non-current		
Post-employment benefits (Note 14)	5,768	6,116
Contributions in aid of construction (Note 15)	151,794	168,988
Deferred revenue (Note 16)	10,194	-
Decommissioning fund (Note 3)	-	2,665
Derivative related liability (Note 24)	1,042	-
Long-term debt (Note 13)	86,058	142,523
Total liabilities	**370,239**	365,096
Equity		
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	68,014	61,367
Total equity	**121,614**	114,967
Total liabilities and equity	**491,853**	480,063
Regulatory deferral account credit balances (Note 9)	17,236	19,036
Total liabilities, equity and regulatory deferral account credit balances	**$ 509,089**	$ 499,099

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)

For the year ended December 31	2018	2017
Revenues		
Sales of power (Note 17)	$ 47,991	$ 44,971
Other	318	369
Funding from parent (Note 20)	-	565
	48,309	45,905
Operating expenses		
Operations and maintenance (Note 18)	23,487	18,328
Depreciation and amortization (Notes 7 and 8)	13,035	13,268
Administration (Note 19)	11,801	10,772
	48,323	42,368
(Loss) income before other income and other expenses	**(14)**	3,537
Other income		
Amortization of contributions in aid of construction (Note 15)	3,574	4,116
Allowance for funds used during construction	540	466
Unrealized gain on interest rate swap (Note 24)	-	353
	4,114	4,935
Other expenses		
Interest on borrowings	4,594	4,303
Unrealized loss on interest rate swap (Note 24)	986	-
	5,580	4,303
Net (loss) income for the year before net movements in regulatory deferral account balances	**(1,480)**	4,169
Net movement in regulatory deferral account balances related to net income (Note 9 (d))	7,577	**6,292**
Net income for the year and net movements in regulatory deferral account balances	**6,097**	**10,461**
Other Comprehensive Income (Note 3 (n))		
Item that will not be reclassified to net income in subsequent periods		
Re-measurement of defined benefit pension plans (Note 14)	550	(128)
Total comprehensive income for the year	**$ 6,647**	$ 10,333

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	Share Capital $	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2016	**3,900**	**$ 39,000**	**$ 14,600**	**$ 51,034**	**$ -**	**$ 104,634**
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	-
Balance at December 31, 2017	**3,900**	**39,000**	**14,600**	**61,367**	**-**	**114,967**
Net income for the year and net movement in regulatory deferral account balances	-	-	-	6,097	-	6,097
Other comprehensive income	-	-	-	-	550	550
Transfer of re-measurement of defined benefit pension plans to retained earnings	-	-	-	550	(550)	-
Balance at December 31, 2018	**3,900**	**$ 39,000**	**$ 14,600**	**$ 68,014**	**$ -**	**$ 121,614**

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	2018	2017
Operating activities		
Cash receipts from customers	$ 48,600	$ 43,684
Cash receipts from parent related to funding	-	565
Cash receipts from contributions in aid of construction	78	334
Cash paid to suppliers	(20,319)	(19,106)
Cash paid to employees	(12,455)	(11,580)
Interest paid	(4,196)	(3,670)
Cash provided by operating activities	**11,708**	10,227
Financing activities		
Proceeds from long-term debt	23,600	-
Repayment of long-term debt	(5,103)	(5,238)
Cash provided by (used in) financing activities	**18,497**	(5,238)
Investing activities		
Additions to property, plant and equipment	(19,695)	(10,346)
Additions to intangible assets	(2,875)	(2,248)
Cash used in investing activities	**(22,570)**	(12,594)
Net increase (decrease) in cash	7,635	(7,605)
Cash, beginning of year	**(7,054)**	551
Cash, end of year	**$ 581**	$ (7,054)
Cash includes:		
Cash	$ 581	$ 240
Bank indebtedness	-	(7,294)
	$ 581	$ (7,054)

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

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

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 prudency 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: wholesale, general service, industrial, residential, sentinel and street lights and secondary sales. 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.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

1. NATURE OF OPERATIONS - continued

b) Rate regulation - continued
In June 2017, the Utility filed a GRA for the years 2017 and 2018 requesting approval of revenue requirement and related rate increases. After responding to multiple rounds of interrogatories and participating in an oral public hearing, YEC received an order on its application in December 2018. YEC has responded to that order as directed and awaits the YUB's final direction.

The GRA requested 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. Final increases are subject to approval of the YUB, including any necessary recovery riders for increases effective for the test years.

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.

The key findings in YUB Board Order 2018-10 was a direction to the Utility to update the 2017 revenue requirement based on the 2017 actual results and to replace the Diesel Contingency Fund ("DCF") with the Low Water Reserve Fund ("LWRF"). See note 9(b)(iii) for details on the LWRF impact.

Subsequent to the year end, the YUB issued Board Order 2019-02 which reduced the LWRF refund to customers to $0.00 per kWh starting April 1, 2019. This will reduce the cash refunded in note 9(b)(iii).

These financial statements reflect the requested rate increase for 2017 and 2018, and all other YUB board orders requested in the GRA which affect the Utility's financial statements for 2018. 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 licenses 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. The current water licenses have the following terms:

Aishihik Generating Station	December 31, 2019
Mayo Generating Station	December 31, 2025
Whitehorse Generating Station	December 31, 2025

The Utility is collaborating with stakeholders and regulators to ensure the Aishihik licence is renewed on a timely basis.

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). When dividends are declared to the Parent, they 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 7, 2019.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

2. BASIS OF PRESENTATION - continued

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 except for the changes related to adoption of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*, as described in note 3(o).

a) Revenue recognition
The Utility recognizes revenue from contracts where the right to consideration from a customer corresponds directly with the value to the customer of the Utility's performance completed to date.

The majority of the Utility's revenues from contracts with customers are derived from the generation, transmission, distribution, purchase and sales of electricity under the *Public Utilities Act*. The Utility evaluates whether the contracts it enters into meet the definition of a contract with a customer at the inception of the contract and ongoing basis if there is an indication of a significant change in facts and circumstances. Revenue is measured based on the transaction price specified in a contract with a customer. Revenue is also recognized when control over a promised good or service is transferred to the customer and the Utility is entitled to consideration as a result of completion of the performance obligation.

The Utility recognizes a contract asset or deferred revenue for the contracts where the performance obligation has not been satisfied. Deferred revenue is recognized when the Utility receives consideration before the performance obligations have been satisfied. A contract asset is recorded when the Utility has rights to consideration for the completion of a performance obligation when that right is conditional on something other than the passage of time. The Utility recognizes unconditional rights to consideration separately as a trade receivable. Contract assets are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

Electricity sales contracts are deemed to have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other obligations in the contracts and therefore not distinct. These performance obligations are considered to be satisfied over time as electricity is delivered because of the continuous transfer of control to the customer. The method of revenue recognition for the electricity is an output method, which is based on the volume delivered to the customer.

The Utility's electricity sales are calculated based on the customer's usage of electricity during the period at the applicable published rates for each customer class. Electricity rates in Yukon are set by the YUB. Electricity sales include an estimate of electricity deliveries not yet billed at period-end. The estimated unbilled revenue is based on several factors, including estimated consumption by customer, applicable customer rates and the number of days between the last billing date and the end of the period.

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.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

c) Allowance for funds used during construction
The cost of the Utility's property, plant and equipment and certain regulatory deferral accounts 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.

i) Financial assets

Cash and accounts receivable, plus any transaction costs that are directly attributable to the acquisition of the financial asset, are initially measured at fair value. Subsequent to initial recognition, cash is measured at amortized cost and accounts receivable are measured at amortized cost using the effective interest rate method less any impairment. The Utility's business model is to hold these assets to collect contractual cash flows.

A provision for impairment of accounts receivable is established applying the expected credit loss model based on all possible default events over the expected life of the financial asset 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. For trade accounts receivable, the Utility applies the simplified approach which requires expected lifetime losses to be recognized from initial recognition of the receivables. For other receivables, at the reporting date, if credit risk has increased significantly since initial recognition, the Utility measures the loss allowance at an amount equal to the lifetime expected credit losses, otherwise, if the credit risk has not increased significantly since initial recognition, the Utility measures the loss allowance at an amount equal to 12-month expected credit losses.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

f) Financial instruments - continued
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. A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Utility has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of the asset.

ii) Financial liabilities

Bank indebtedness, accounts payable and accrued liabilities, construction financing and long-term debt are initially measured at fair value less any transaction costs that are directly attributable to the issuance of the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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.

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 fair value through profit and loss 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.

A financial liability is derecognized when the obligation is discharged or cancelled, or expires.

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.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

g) Property, plant and equipment - continued
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.

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 assets
Property, plant and equipment, 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"). Value in use is the net present value of expected future cash flows of the relevant cash-generating unit in its current condition.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

i) Impairment of non-financial assets - continued
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 impairment testing, impairment charges recognized in net income and the resulting carrying amounts of the assets.

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, *Regulatory Deferral Accounts*, 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 performance obligations are met.

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.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 financial 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 life of the asset to which they relate.

n) 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.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

n) 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.

o) Impact of adoption of new accounting standards

i) Impact of Adoption of IFRS 9, *Financial Instruments*

The Utility has adopted IFRS 9 with a date of initial application of January 1, 2018 and applied its provisions retrospectively without restatement of comparative periods which are accounted for under IAS 39, *Financial Instruments: Recognition and Measurement.*

The key changes to the Utility's accounting policies from its adoption of IFRS 9 are summarized below.

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Classification assessments have been made on the basis of the facts and circumstances that existed at the date of initial application, including the business model within which the financial asset is held. The following table shows the new measurement categories of financial assets and liabilities under IFRS 9 as compared to the Utility's previous policy under IAS 39 as at January 1, 2018:

	January 1, 2018	
Financial Assets	**IAS 39**	**IFRS 9**
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Derivative related asset	Held for trading	FVTPL
Financial Liabilities		
Bank indebtedness	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Construction financing	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Derivative related liability	Held for trading	FVTPL

Under IFRS 9, the Utility recognizes impairment of its financial assets using the expected credit loss model as described in note 3(f). Under the Utility's previous accounting policy, a provision for impairment of accounts receivable was established when there was objective evidence that the Utility would not be able to collect all amounts due according to the original terms of the receivable. The application of the expected credit loss model to determine the allowance for doubtful accounts, and the impacts of the classification changes noted in the table above had no impact on the Utility's balances as at January 1, 2018 and December 31, 2018.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

o) Impact of adoption of new accounting standards - continued

ii) Impact of adoption of IFRS 15, *Revenue from Contracts from Customers*

The Utility adopted IFRS 15 on January 1, 2018, applying its provisions retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application (January 1, 2018) with no restatement of prior year financial statements, and applying IFRS 15 only to contracts not completed as of January 1, 2018. IFRS 15 contains a single model that applies to all contracts with customers and has 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. Comparative information has not been restated and continues to be reported under IAS 18, *Revenue.*

The following table summarizes the impacts of adopting IFRS 15 on the Utility's Statement of Financial Position as at December 31, 2018 and on its statement of operations and other comprehensive income for the year then ended for each of the line items affected. There was no impact on the Utility's statement of cash flows for the year ended December 31, 2018. Upon adoption of IFRS 15, the Utility did not recognize any contract assets.

Affected line items	As reported December 31, 2018	Adjustments	Amounts without adoption of IFRS 15
Impact on the Statement of Financial Position			
Deferred revenue - current portion (i)	1,700	(1,700)	-
Deferred revenue - non-current (i)	10,194	(10,194)	-
Contributions in aid of construction (i),(ii)	151,794	13,197	164,991
Decommissioning fund (i),(iii)	-	2,713	2,713
Regulatory deferral account credit balances (iv)	17,236	(4,624)	12,612
Retained earnings (iv)	68,014	-	68,014
Impact on the statement of operations and other comprehensive income			
Sales of power (ii)	47,991	(1,669)	46,322
Amortization of contributions in aid of construction (ii)	3,574	1,198	4,772
Subtotal - impact of line items above on net (loss) income for the year before net movements in regulatory deferral account balances	(1,480)	(471)	(1,951)
Net movement in regulatory deferral account balances related to net income (iv)	7,577	471	8,048
Total comprehensive income for the year (iv)	6,647	-	6,647

(i) In accordance with IFRS 15, contract liabilities are presented on the face of the financial statements. The Utility has presented its contract liabilities as deferred revenue.

(ii) In accordance with IFRS 15, the Utility has one performance obligation related to its contracts with customers. As a result, cash contributions received from customers are recognized as revenue when the performance obligation is satisfied, and classified as sales of power upon revenue recognition. Previously, in accordance with IFRIC 18, *Transfers of Assets from Customers*, these amounts were deferred as contributions in aid of construction and amortized over the life of the related asset as amortization of contributions in aid of construction.

(iii) In accordance with IFRS 15, the decommissioning fund is a contract liability and is presented as deferred revenue.

(iv) As a result of the adoption of IFRS 15, there is a timing difference that affects the regulatory deferral account credit balance, as described in note 9(b)(v). Due to the Utility's accounting policies in accordance with IFRS 14 there is no net impact of IFRS 15 adoption on retained earnings as at January 1, 2018 or December 31, 2018, or on total comprehensive income for the year.

Yukon Energy Corporation

Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

3. SIGNIFICANT ACCOUNTING POLICIES - continued

p) New standard and interpretation not yet adopted

The standard IFRS 16, *Leases* is not yet effective for the year ended December 31, 2018, and has not been applied in preparing these financial statements.

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 non-financial assets – Notes 3(i)
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 3(k) 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.

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4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

Depreciation – Notes 3(g) and 7
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.

Intangible assets – Notes 3(h) 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 3(n) 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 3(a), 3(o) and 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. Significant judgments have also been made in determining the nature of the Utility's performance obligations, the appropriate process measure and the contract terms to be used in recognizing the related revenue.

Provisions and Contingencies – Notes 3(l) 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 3(f) 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, in accordance with IFRS 9, *Financial Instruments*. 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.

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4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

Regulatory deferral account balances – Notes 1(b), 3(j) and 9
The Utility accounts for its regulatory deferral accounts in accordance with IFRS 14 and the decisions of the YUB. As discussed in note 1(b) 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 amounts that the YUB will approve the Utility to collect deferred costs through future rates.

5. ACCOUNTS RECEIVABLE

	December 31 2018	December 31 2017
Trade accounts receivable		
Wholesale energy sales	$ 4,599	$ 4,227
Retail energy sales	1,601	2,366
Due from related parties (Note 20)	32	373
Other	641	563
	$ 6,873	$ 7,529

At December 31, 2018, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	$ 6,202	$ 677	$ 4	$ 6,883
Allowance for doubtful accounts		(6)	(4)	(10)
	$ 6,202	$ 671	$ -	$ 6,873

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)
	$ 6,306	$ 1,169	$ 54	$ 7,529

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

	December 31 2018	December 31 2017
Allowance for doubtful accounts at beginning of year	$ (10)	$ (10)
Amounts written off as uncollectable	-	-
Allowance for doubtful accounts at end of year	$ (10)	$ (10)

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6. INVENTORIES

	December 31 2018	December 31 2017
Materials and supplies	$ 3,067	$ 3,342
Diesel fuel	457	337
Liquefied natural gas	185	103
	$ 3,709	$ 3,782

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
Cost:						
At December 31, 2016 (i)	$ 278,804	$ 166,538	$ 16,916	$ 4,266	$ 11,358	$ 477,882
Additions	-	-	-	553	12,590	13,143
Transfers	16,274	2,604	1,295	-	(20,173)	-
Disposals	-	-	(189)	(238)	-	(427)
At December 31, 2017	$ 295,078	$ 169,142	$ 18,022	$ 4,581	$ 3,775	$ 490,598
Additions	-	-	-	-	19,832	19,832
Transfers	10,182	8,733	969	306	(20,190)	-
Disposals	(1,783)	(47)	(220)	-	-	(2,050)
At December 31, 2018	$ 303,477	$ 177,828	$ 18,771	$ 4,887	$ 3,417	$ 508,380
Accumulated depreciation:						
At December 31, 2016 (i)	$ 14,371	$ 15,806	$ 2,479	$ 872	$ -	$ 33,528
Depreciation	6,243	4,413	1,253	306	-	12,215
Disposals	-	-	(189)	(187)	-	(376)
At December 31, 2017	$ 20,614	$ 20,219	$ 3,543	$ 991	$ -	$ 45,367
Depreciation	6,571	4,486	617	319	-	11,993
Disposals	(643)	(10)	(220)	-	-	(873)
At December 31, 2018	$ 26,542	$ 24,695	$ 3,940	$ 1,310	$ -	$ 56,487
Net book value:						
At December 31, 2017	$ 274,464	$ 148,923	$ 14,479	$ 3,590	$ 3,775	$ 445,231
At December 31, 2018	$ 276,935	$ 153,133	$ 14,831	$ 3,577	$ 3,417	$ 451,893

(i) The Utility reviewed the presentation of its property, plant and equipment and certain balances related to Cost and Accumulated depreciation were revised in order to properly reflect in the note those assets that had been disposed of and those that had been reclassified. As a result both the Cost and Accumulated depreciation of property, plant and equipment as at December 31, 2016 were increased by $4,033,000. There was no impact on the total net carrying amounts or on the Statement of Financial Position.

The AFUDC capitalized for 2018 was $540,000 (2017 - $466,000). The AFUDC rate estimate for 2018 was 2.36% (2017 - 2.36%).

Yukon Energy Corporation

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8. INTANGIBLE ASSETS

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

	Software	Deferred Service Costs	Financial Software	Aishihik Water Licensing	Thermal and Water Licensing	Total
Cost:						
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
Additions	791	-	-	1,983	376	3,150
Disposals	-	-	-	(466)	-	(466)
At December 31, 2018	$ 1,481	$ 443	$ 2,406	$ 7,461	$ 3,201	$ 14,992
Accumulated amortization:						
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
Amortization	183	64	284	479	32	1,042
Disposals	-	-	-	(466)	-	(466)
At December 31, 2018	$ 460	$ 320	$ 1,418	$ 2,081	$ 129	$ 4,408
Net book value:						
At December 31, 2017	$ 413	$ 187	$ 1,272	$ 3,876	$ 2,728	$ 8,476
At December 31, 2018	$ 1,021	$ 123	$ 988	$ 5,380	$ 3,072	$ 10,584

The internally generated costs and externally purchased costs for Software and Financial Software are approximately 50% internal and 50% external at December 31, 2018 and December 31, 2017. All other categories are almost exclusively internally generated.

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9. REGULATORY ACCOUNTS

a) 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
Cost:							
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
Costs incurred	1,091	-	645	-	-	651	1,387
Regulatory provision	-	-	-	-	-	(267)	(267)
Disposals	(69)	-	-	-	-	-	(69)
At December 31, 2018	$ 22,877	$ -	$ 5,074	$ 2,216	$ 148	$ 1,843	$ 32,158
Accumulated amortization:							
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
Amortization	1,791	-	405	222	30	212	2,660
Disposals	(69)	-	-	-	-	-	(69)
At December 31, 2018	$ 5,079	$ -	$ 1,001	$ 444	$ 60	$ 424	$ 7,008
Net book value:							
At December 31, 2017	$ 18,498	$ -	$ 3,833	$ 1,994	$ 118	$ 1,247	$ 25,690
At December 31, 2018	$ 17,798	$ -	$ 4,073	$ 1,772	$ 88	$ 1,419	$ 25,150

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):

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Subtotal see next page
December 31, 2017	$ 268	$ -	$ 372	$ (222)	$ (30)	$ 188	$ 576
December 31, 2018	$ (700)	$ -	$ 240	$ (222)	$ (30)	$ 172	$ (540)
Remaining recovery years							
At December 31, 2017	1 to 9 years		2 to 36 years	9 years	4 years	Indeterminate	
At December 31, 2018	1 to 8 years		1 to 35 years	8 years	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:

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Subtotal see next page
December 31, 2017	$ (268)	$ -	$ (372)	$ 222	$ 30	$ (188)	$ (576)
December 31, 2018	$ 700	$ -	$ (240)	$ 222	$ 30	$ (172)	$ 540

Yukon Energy Corporation

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9. REGULATORY ACCOUNTS - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	2017/18 GRA (ix)	Total
Cost:					
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
Costs incurred	2,387	-	-	-	2,387
Regulatory provision	(267)	-	1,321	2,696	3,750
Disposals	(69)	-	-	(1,705)	(1,774)
At December 31, 2018	$ 32,158	$ 2,768	$ 1,819	$ 5,310	$ 42,055
Accumulated amortization:					
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
Amortization	2,660	147	-	1,705	4,512
Disposals	(69)	-	-	(1,705)	(1,774)
At December 31, 2018	$ 7,008	$ 259	$ -	$ -	$ 7,267
Net book value:					
At December 31, 2017	$ 25,690	$ 2,656	$ 498	$ 4,319	$ 33,163
At December 31, 2018	$ 25,150	$ 2,509	$ 1,819	$ 5,310	$ 34,788

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):

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	2017/18 GRA (ix)	Total
December 31, 2017	$ 576	$ (112)	$ 500	$ 4,319	$ 5,283
December 31, 2018	$ (540)	$ (147)	$ 1,321	$ 991	$ 1,625
Remaining recovery years					
At December 31, 2017		4 to 9 years	1 year	1 year	
At December 31, 2018		3 to 8 years	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:

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	2017/18 GRA (ix)	Total
December 31, 2017	$ (576)	$ 112	$ (500)	$ (4,319)	$ (5,283)
December 31, 2018	$ 540	$ 147	$ (1,321)	$ (991)	$ (1,625)

(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.

Yukon Energy Corporation

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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. This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(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. There is an annual regulatory provision of $267,000 and amortization of the 2016 accumulated balance of $1,059,000 over five years ($212,000 per year). This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

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 and began to recognize these deferred depreciation amounts. 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. This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(ix) 2017/18 GRA
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 plus return on rate base, as described in note 1(b). The amount recognized represents management's best judgement and estimate of the expected approval by the YUB. The ending balance at December 31, 2018 comprises the Utility's remaining revenue shortfall to be collected in future years. This change is consistent with the 2017-2018 GRA. Refer to notes 1(b) and 4.

Yukon Energy Corporation

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9. REGULATORY ACCOUNTS - continued

(x) Deferred gains and losses
Deferred gains and losses represent amounts from disposals of property, plant and equipment that have or will be submitted for approval by the YUB to be deferred. There are no deferred gains or losses during any of the reporting years.

b) Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing reserve (ii)	Low Water Reserve (iii)	Future removal and site Restoration (iv)	Contracts with Customers (v)	Total
Cost:						
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
Impact of IFRS 15 (Note 3(o)(ii))	-	-	-	-	4,153	4,153
Adjusted balance at December 31, 2017	$ 11,602	$ 1,220	$ 8,742	$ 4,303	$ 4,153	$ 30,020
Cost incurred	-	(155)	(893)	(339)	-	(1,387)
Regulatory provision	-	250	(2,033)	-	471	(1,312)
Cash received	-	-	77	-	-	77
Cash refunded	-	-	(2,875)	-	-	(2,875)
At December 31, 2018	$ 11,602	$ 1,315	$ 3,018	$ 3,964	$ 4,624	$ 24,523
Accumulated amortization:						
At December 31, 2016	$ 6,374	$ -	$ -	$ -	$ -	$ 6,374
Amortization	263	194	-	-	-	457
Disposals	-	-	-	-	-	-
At December 31, 2017	$ 6,637	$ 194	$ -	$ -	$ -	$ 6,831
Amortization	262	194	-	-	-	456
Disposals	-	-	-	-	-	-
At December 31, 2018	$ 6,899	$ 388	$ -	$ -	$ -	$ 7,287
Net book value:						
At December 31, 2017	$ 4,965	$ 1,026	$ 8,742	$ 4,303	$ -	$ 19,036
At December 31, 2018	$ 4,703	$ 927	$ 3,018	$ 3,964	$ 4,624	$ 17,236
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, 2017	$ 263	$ (53)	$ 743	$ 56	$ -	$ 1,009
December 31, 2018	$ 262	$ 99	$ 5,724	$ 339	$ (471)	$ 5,953
Remaining recovery years						
At December 31, 2017	19 years	Indeterminate	Indeterminate	Indeterminate		
At December 31, 2018	18 years	Indeterminate	Indeterminate	Indeterminate	49 years	
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, 2017	$ (263)	$ 53	$ (743)	$ (56)	$ -	$ (1,009)
December 31, 2018	$ (262)	$ (99)	$ (5,724)	$ (339)	$ 471	$ (5,953)

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9. REGULATORY ACCOUNTS - continued

(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. This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(iii) Low Water Reserve Fund
The Low Water Reserve Account ("LWRF") was established by YUB Order 2018-10. The LWRF is used to protect the Utility and ratepayers for costs associated with variability in thermal generation required when there is a thermal cost variance due solely to water-related hydro generation variances from YUB approved GRA forecasts. The LWRF replaces the Diesel Contingency Fund ("DCF") which provided similar risk mitigation but did not include natural gas thermal generation in its determinations.

The LWRF 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 LWRF'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 thermal consumed in the period is less than the long-term average thermal requirements estimated for the actual annual generation load. These deferred amounts are recognized as revenue in the period when the cost of thermal incurred for the period is greater than the long-term average thermal requirements and the reason for the shortfall is a shortage of water in the hydro system. However, in YUB Order 2018-10, the Utility was ordered to record 2017 thermal generation amounts based on actual thermal generation amounts, not modelled results. As a result, the Utility has recorded the additional cost of thermal initially reported in 2017 as an adjustment to 2018 Regulatory Provision ($2.033 million). The YUB has set a cap of +/- $8 million for the LWR. 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. Subsequent to year end this refund amount has been changed.

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

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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.

(v) Contracts with customers
Effective January 1, 2018 the Utility adopted IFRS 15, as described in note 3(o)(ii). As a result of the impacts of IFRS 15, certain revenues are recognized in the statement of operations and other comprehensive income over a shorter period than allowed by the YUB for rate-setting purposes. The timing difference is reflected as a regulatory deferral account credit balance. In the absence of rate regulation, the IFRS 15 transition adjustment would increase the Utility's opening retained earnings by $4,153,000.

(c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of $2,387,000 (2017 - $3,844,000) and regulatory account credit balances of $1,387,000 (2017 - $59,000).

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

Net movement in regulatory deferral account balances related to net income is $7,577,000 (2017 – $6,292,000) 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 $7,577,000 is comprised of an increase of $1,625,000 for regulatory account debit balances and a decrease of $5,953,000 for regulatory account credit balances for rate regulation compared to the amounts that are recognized under IFRS. The net movement figure of $6,292,000 for 2017 is comprised of an increase of $5,283,000 for regulatory account debit balances and $1,009,000 decrease for 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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10. BANK INDEBTEDNESS

The line of credit accrues interest on withdrawals at prime rate minus 0.75% per annum. Refer to the interest rate risk section within note 24.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2018	December 31 2017
Trade payables	$ 9,105	$ 7,461
Employee compensation	955	1,328
Due to related parties (Note 20)	835	812
Other	193	220
	$ 11,088	$ 9,821

12. CONSTRUCTION FINANCING

	December 31 2018	December 31 2017
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
Construction financing, due December 31, 2019 bearing interest at 2.74% approved to a maximum of $8.4 million	8,400	-
Construction financing, due December 31, 2019 bearing interest at 2.74% approved to a maximum of $14 million	13,985	-
	$ 22,385	$ 22,385

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 during 2018.

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13. LONG-TERM DEBT

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

	December 31 2018	December 31 2017
Yukon Development Corporation		
$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 $77,723,273 due December 31, 2019	$ 77,723	$ 81,407
$21,900,000 flexible term note bearing interest up to 5.48% repayable in annual installments of $336,923 principal, plus accrued interest with the balance of $8,423,078 due December 31, 2051 (i)	19,880	19,878
$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	18,466	19,306
$12,136,000 term note bearing interest at 2.10% interest only payable annually, due December 31, 2041	12,136	12,136
TD Bank		
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)	8,991	9,348
The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptance amounts from a variable interest rate based on the Bankers' Acceptance rates to a fixed rate of 3.665% per annum. Payable in monthly installments of $120,246 interest and principal with the balance due on August 23, 2038 (iii)	23,406	-
Carmacks Stewart First Nation Liability		
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	161	191
	166,268	147,771
Less current portion	80,210	5,248
	$ 86,058	$ 142,523

Yukon Energy Corporation

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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 3.88% (2017 - 3.68%).

(ii) **TD Bank Loan and 2.69% 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.

(iii) **TD Bank Loan and 3.665% Interest Rate Swap**
On August 23, 2018, 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 August 23, 2038.

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

2019	80,210
2020	2,187
2021	2,211
2022	9,705
2023	1,872
Thereafter	70,083
	$ 166,268

The change in long-term debt arising from financing activities during the year related to principal repayment of $5,103,000 and the issuance of additional debt in the amount of $23,600,000. An amount of $79,872,000 was reclassified from long-term debt to current portion of long-term debt due to the passage of time. The Utility plans to renegotiate the $77,723,000 note with the parent with terms based on market conditions at the time of renewal.

Fair value
The fair value of long-term debt at December 31, 2018 is $163,000,000 (2017 - $146,000,000). 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.

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.

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14. POST-EMPLOYMENT BENEFITS - continued

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 2018, these were $499,000 (2017 - $454,000).

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 $148,300 as a minimum annual payment during years 2018-2027, reducing to $110,300 for 2028, and further reducing to $61,000 per year during years 2029-2032 (2017 - $87,300 annually for 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.

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14. POST-EMPLOYMENT BENEFITS - continued

Net defined benefit liability

	December 31 2018	December 31 2017
Present value of benefit obligations		
Balance, beginning of year	$ 24,775	$ 22,980
Employee contributions	73	84
Current service cost	403	543
Interest cost	847	910
Benefits paid	(680)	(559)
Actuarial gains on experience	(235)	(755)
Actuarial losses on demographic assumptions	215	-
Actuarial (gains) losses on financial assumptions	(1,899)	1,572
Balance, end of year	$ 23,499	$ 24,775
Fair value of plan assets		
Balance, beginning of year	18,659	17,113
Interest income on plan assets	632	671
(Losses) gains on plan assets	(1,369)	688
Employee contributions	74	84
Employer contributions	438	674
Benefits paid	(643)	(521)
Administrative costs	(60)	(50)
Balance, end of year	$ 17,731	$ 18,659
Net defined benefit liability	$ 5,768	$ 6,116

Components of benefit plan cost:

	December 31 2018	December 31 2017
Current service cost	$ 403	$ 543
Interest cost	847	910
Interest income on plan assets	(632)	(671)
Administrative costs	60	50
Defined benefit expense in Statement of Operations	678	832
Defined contribution expense	499	454
Total benefit expense in Statement of Operations	$ 1,177	$ 1,286
Actuarial (gains) losses on obligation	(1,919)	816
Losses (gains) on plan assets	1,369	(688)
Total re-measurements included in Other Comprehensive Income	$ (550)	$ 128
Total benefit costs recognized in Statement of Operations and Other Comprehensive Income	$ 627	$ 1,414

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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, 2018	December 31, 2017
Equities	48.6%	51.8%
Fixed income securities	40.9%	38.5%
Real estate	10.5%	9.7%

Significant assumptions:

	December 31, 2018	December 31, 2017
Discount rate - accrued benefit obligation	3.90%	3.40 - 3.50%
Assumed rate of salary escalation	2.80%	2.80 - 3.50%
Pension growth	2.00%	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 MI-2017.

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2018

Assumption	+1%	-1%	+1%	-1%
Discount rate	-13.39%	16.97%	$ (3,146)	$ 3,988
Salary growth	1.58%	-1.41%	351	(313)
Pension growth	14.80%	-12.13%	3,287	(2,694)
Life expectancy (1 year movement)	2.51%	-2.45%	589	(575)

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)

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.

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14. POST-EMPLOYMENT BENEFITS - continued

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 (2017 - 16.0 years). The Utility expects to make payments of $606,000 (2017 - $682,000) to the defined benefit plans during the next financial year.

15. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Government of Canada	Parent since 1998	Yukon Government since 1998	Pre-1998 contributions	Total
Cost:					
At January 1, 2018	$ 71,000	$ 91,810	$ 11,391	$ 1,739	$ 175,940
Additions	-	-	79	-	79
Disposals	-	(2,080)	-	-	(2,080)
At December 31, 2018	$ 71,000	$ 89,730	$ 11,470	$ 1,739	$ 173,939
Accumulated amortization:					
At January 1, 2018	$ 6,020	$ 11,203	$ 2,049	$ 1,379	$ 20,651
Amortization	991	1,662	220	43	2,916
Disposals	-	(1,422)	-	-	(1,422)
At December 31, 2018	$ 7,011	$ 11,443	$ 2,269	$ 1,422	$ 22,145
Net book value:					
At December 31, 2018	$ 63,989	$ 78,287	$ 9,201	$ 317	$ 151,794

During 2018, contributions from parent (since 1998) with net book value of $658,000 which relate to assets disposed of during the year have been recognized in other income for total amortization of contributions in aid of construction of $3,574,000

	Customer since 1998	Government of Canada	Parent since 1998	Yukon Government since 1998	Pre-1998 contributions	Total
Cost:						
At December 31, 2016	$ 24,853	$ 71,000	$ 91,810	$ 11,098	$ 1,739	$ 200,500
Additions	41	-	-	293	-	334
At December 31, 2017	$ 24,894	$ 71,000	$ 91,810	$ 11,391	$ 1,739	$ 200,834
Accumulated amortization:						
At December 31, 2016	$ 9,940	$ 5,029	$ 9,591	$ 1,834	$ 1,336	$ 27,730
Amortization	1,255	991	1,612	215	43	4,116
At December 31, 2017	$ 11,195	$ 6,020	$ 11,203	$ 2,049	$ 1,379	$ 31,846
Net book value:						
At December 31, 2017	$ 13,699	$ 64,980	$ 80,607	$ 9,342	$ 360	$ 168,988

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16. DEFERRED REVENUE

	Customer Contributions	Decommissioning Fund	Total
At January 1, 2018	$ 9,546	$ 2,665	$ 12,211
Additions	1,304	48	1,352
Revenue recognized in Sales of Power (Note 17)	(1,669)	-	(1,669)
At December 31, 2018	$ 9,181	$ 2,713	$ 11,894

Customer contributions represent monies paid by customers for connection to the grid. The contributions are recognized into revenue when the performance obligation is satisfied.

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"). This amount will be recognized to revenue when uncertainty associated with its recognition is satisfied.

17. SALES OF POWER

	2018	2017
Wholesale	$ 32,911	$ 31,516
General service	5,359	4,924
Industrial	6,894	5,298
Residential	2,700	2,494
Sentinel and street lights	108	104
Secondary sales	19	635
	$ 47,991	$ 44,971

18. OPERATIONS AND MAINTENANCE EXPENSES

	2018	2017
Fuel	$ 6,309	$ 2,911
Wages and benefits	6,234	6,242
Regulatory account expenses (Note 9 (c))	3,774	3,903
Contractors	2,706	3,024
Materials and consumables	1,400	1,335
Rent	1,332	492
Loss on asset disposal	1,177	-
Travel	480	352
Communication	75	69
	$ 23,487	$ 18,328

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19. ADMINISTRATION EXPENSES

	2018	2017
Wages and benefits	$ 6,050	$ 5,771
Insurance and taxes	1,807	1,816
Materials, consumables and general	1,596	1,007
External labour	1,452	1,231
Licences and fees	599	711
Travel	197	181
Board fees	100	55
	$ 11,801	$ 10,772

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:

	2018	2017
Revenue		
Sales of service	$ 4	$ 4
Rate subsidy	298	289
Funding	-	565
Operating expenses		
Interest expense	$ 4,017	$ 3,957
Other payments		
Repayment of long-term debt	$ 4,522	$ 4,860

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

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20. RELATED PARTY TRANSACTIONS - continued

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

	December 31 2018	December 31 2017
YDC		
Accounts receivable	$ 28	$ 30
Accounts payable	769	770
Construction financing	22,385	22,385
Current portion of long-term debt	79,238	4,860
Long-term debt	54,472	133,373
YG		
Accounts receivable	$ 4	$ 343
Accounts payable	66	42

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 17 individuals (2017 - 15 individuals). Key management personnel compensation is as follows:

Year ended December 31	2018	2017
Short-term employee benefits	$ 1,567	$ 1,466
Post-employment benefits	159	163
	$ 1,726	$ 1,629

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.

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, 2018 as the product or service had not been provided. The total commitments at year end are $2,935,000 (2017 - $4,813,000).

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21. COMMITMENTS - continued

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 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 2017, the Yukon Supreme Court issued an award in favor of the contractor. The Utility successfully appealed the award in 2018. A re-trial is tentatively scheduled for September 2019. The matter is still before the courts. Legal costs are being expensed as incurred. The outcome of the court process is not determinable at this time and no estimate of 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 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.

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, 2018 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.

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2018, the Utility's financial instruments included cash, accounts receivable, accounts payable and accrued liabilities, construction financing, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, 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 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.

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, 2018, the Utility had two interest rate swap agreement in place. The first agreement has a notional principal amount of $9.0 million (2017 - $9.3 million) and 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%. The second agreement has a notional principal amount of $23.4 million (2017 - $0) and the agreement effectively changes the Utility's interest rate exposure on thie notional amount from a floating rate to a fixed rate of 3.665%.

The fair value of the interest rate swap agreement on December 31, 2018 was a liability of $1,042,000 (2017 - liability of $56,000). The decrease in the fair value in 2018 of $986,000 (2017 – increase of $353,000) is recognized on the Statement of Operations and Other Comprehensive Income as an unrealized loss. 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 $2,911,000 (2017 - $401,000).

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Interest rate risk - continued

The Utility has access to a $10 million line of credit. Effective August 25, 2018, the line of credit was increased temporarily to $18.5 million. The temporary increase expires August 24, 2019. 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 $2.4 million (2017 - $10.1 million). The Utility has cash balances with the same financial institution of $2.9 million (2017 - $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 2018	December 31 2017
Cash	$ 581	$ 240
Accounts receivable	6,873	7,529
	$ 7,454	$ 7,769

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, 2018 are $681,000 (2017 - $1,213,000) 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.

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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, 2018:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	$1,042	-	$1,042
Long-term debt	-	-	$166,000	$166,000

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

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 decommissioning fund 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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Notes to Financial Statements
(tabular amounts in thousands of Canadian dollars)

December 31 2018

25. CAPITAL MANAGEMENT - continued

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

	December 31 2018	2017
Long-term debt due within one year	$ 80,210	$ 5,248
Long-term debt	86,058	142,523
Total debt	166,268	147,771
Add decommissioning fund (Note 16)	2,713	2,665
Total debt to include in the calculation	$ 168,981	$ 150,436
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	68,014	61,367
Total shareholder's equity	121,614	114,967
Total capitalization	$ 290,595	$ 265,403
Total debt to total capitalization	58 %	57 %

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

Marsh Lake control structure. *Photo: Yukon Energy* yukon energy

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