YUKON ENERGY CORPORATION

2014 Annual Report

YUKON ENERGY

Environmental Benefits Statement

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- Wood Use: 675 kg
- Water: 2,775 L
- Energy: 450 kWhr
- Solid Waste: 37.5 kg
- Greenhouse Gases: 93.75 kg CO2 equiv.

Photo: Yukon Energy

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Yukon Energy's 2014 annual report was prepared under our Board's direction and represents a balanced and accurate summary of the Corporation's economic, environmental and social performance for the calendar year ending December 31, 2014.

MESSAGE FROM THE PRESIDENT

It's my pleasure to present the 2014 Yukon Energy annual report. This is my first year with Yukon Energy, having taken over from long-time president and CEO David Morrison. I want to thank him for his more than ten years of service and for his guidance and advice to me as I took over the position.

The learning curve has been steep, but I am excited about leading Yukon Energy into the future at a time when there are many new possibilities on the horizon for renewable electricity in the territory. I am fortunate to have a team of dedicated employees and a strong Board of Directors who work extremely hard to ensure Yukoners have sustainable electricity now and in the years ahead.

2014 WAS BUSY YEAR FOR THE CORPORATION. KEY PROJECTS INCLUDED:

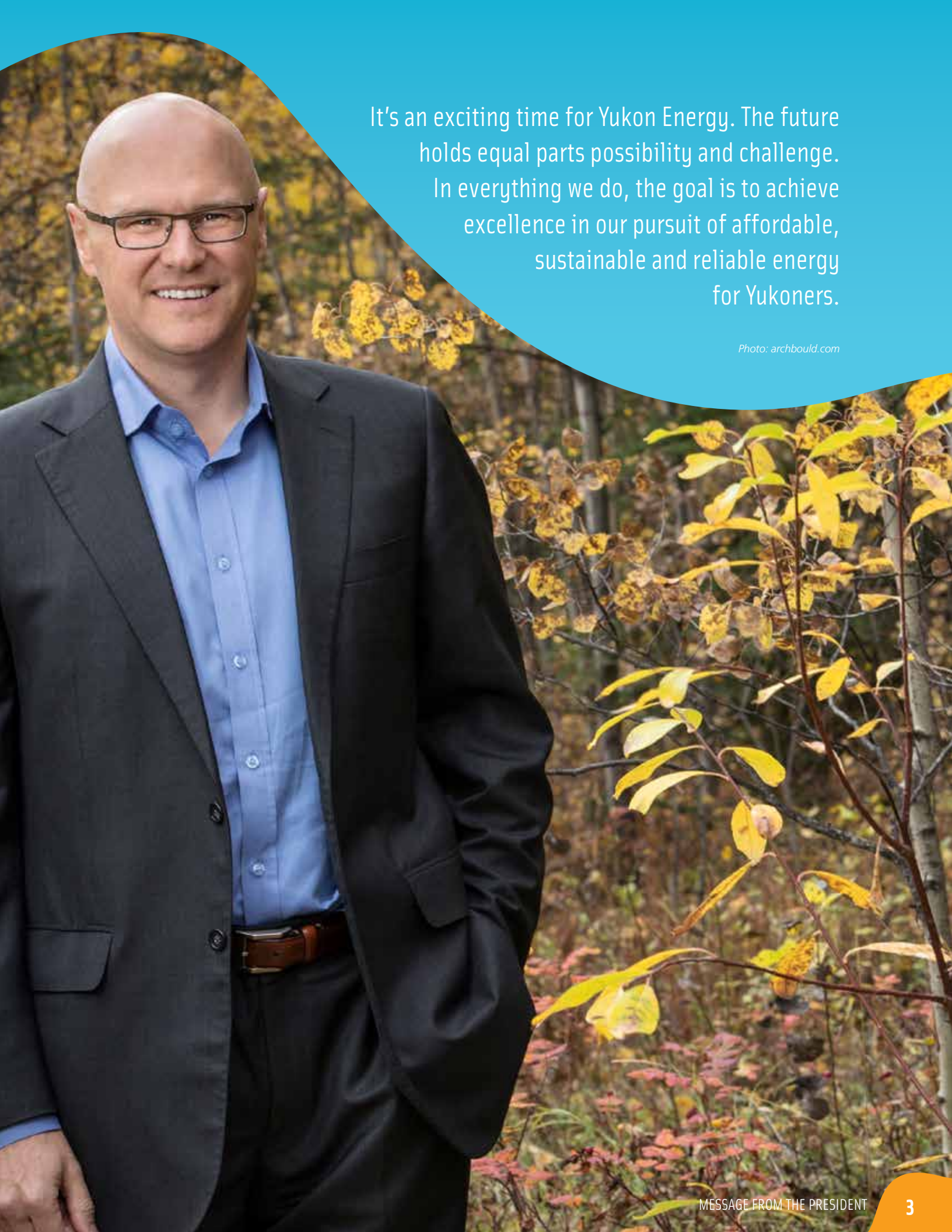
- Launch of the Yukon-wide conservation/efficiencies program inCharge with our partner ATCO Electric Yukon
- Near completion of the Takhini/Whistle Bend substation project
- Excellent progress on construction of the Whitehorse Diesel – Natural Gas Conversion Project
- Major refurbishment at the Mayo Lake control structure
- Overhauls to one of our hydro units and two back-up diesel units
- Various transmission system upgrades
- Reached partnership agreements or Memorandums of Understanding with several Yukon First Nations related to energy projects.

While there were many successes, there were challenges too. During 2014, sales volumes dropped 3.7 percent from the previous year to 402 GWh. This was the second year of reduced sales; the demand for power is down by almost five percent from 2011. Our analysis indicates this drop is due in large part because of warmer temperatures in the winter and a slowdown in population growth. This presents challenges for a business like Yukon Energy that has many fixed costs. To help address this, we will focus on growing Secondary Sales in the commercial and industrial sector.

I would like to take this opportunity to thank my staff and Board of Directors for their hard work and professionalism, and in particular to say thank you to outgoing Chair Piers MacDonald and board member Pat Irvin. Pat has been on our board since 1995, making him the longest serving board member in Yukon Energy's history.

Throughout everything we do, Yukon Energy's goal is to achieve excellence. We measure our success by our ability to deliver affordable, reliable and sustainable power to our customers, our ability to attract and retain a skilled and engaged workforce, and our respect for the environment and for the communities and people we serve.

Andrew Hall
President and CEO



It's an exciting time for Yukon Energy. The future holds equal parts possibility and challenge. In everything we do, the goal is to achieve excellence in our pursuit of affordable, sustainable and reliable energy for Yukoners.

Photo: archbould.com

Photo: Yukon Energy

CORPORATE PROFILE

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arm's 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 a reliable, affordable and sustainable (both economically and environmentally) source of power. Our focus is on renewable sources of power and energy solutions that complement our legacy hydro assets.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,800 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to ATCO Electric Yukon. ATCO buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 129 megawatts of power. Ninety-two megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 37 megawatts at Aishihik and 15 megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up) and less than one megawatt by a wind turbine located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Waters Act*.

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

MANDATE

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

VALUES

» Honesty

» Integrity

» Respect

PRINCIPLES

» A commitment to safety

» Team-based approach to leadership and decision-making

» Focus on accountability, based on clear expectations and goals/targets

» Open communications

» Commitment to continuous improvement

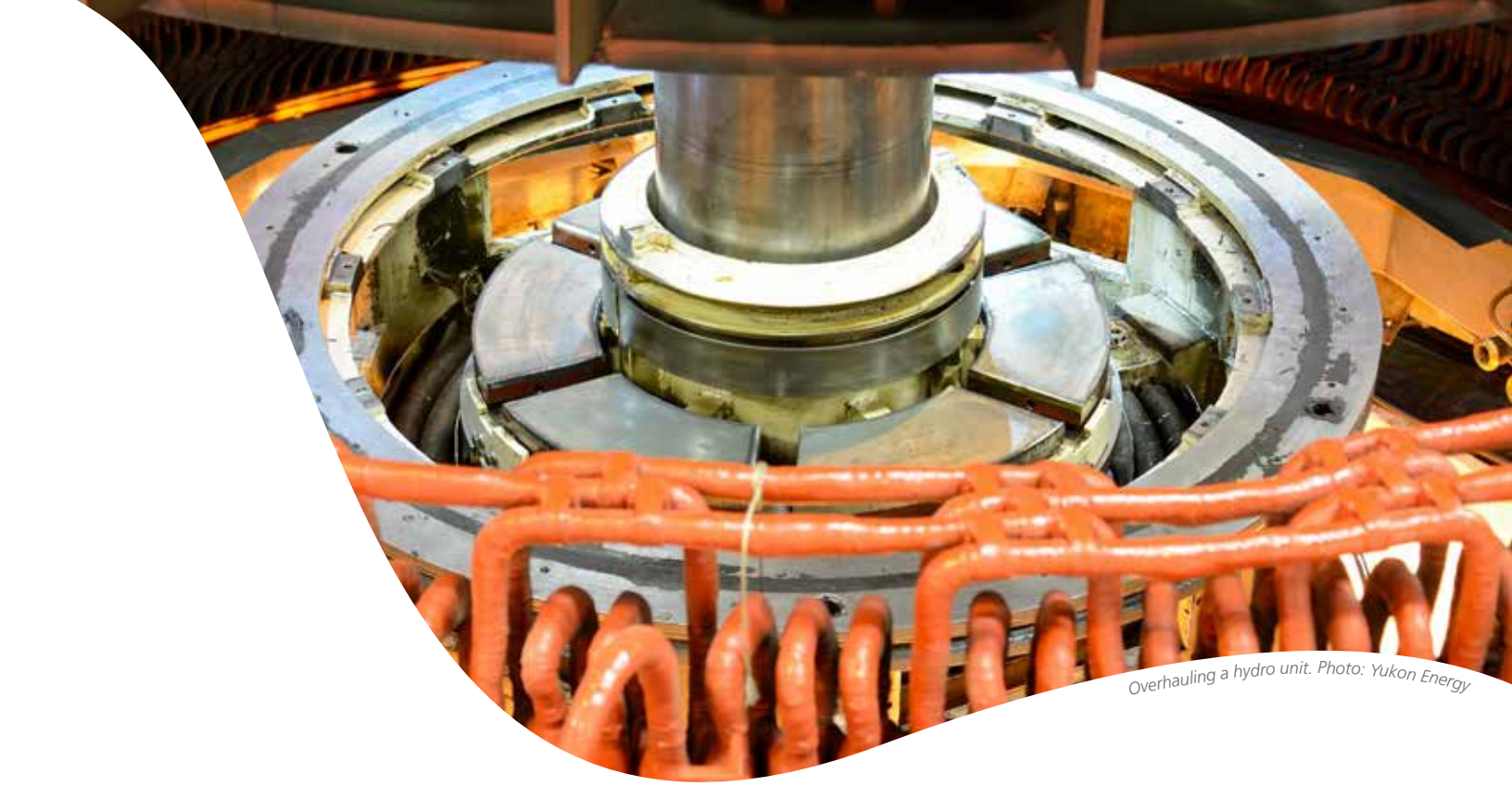
2014 STRATEGIC PRIORITIES AND HOW THEY WERE MET

Continue our work of developing renewable energy supply options

- We completed wind data collection on Tehcho (formerly Ferry Hill).
- We developed a 2015 wind data collection plan for Mount Sumanik.
- We continued public engagement regarding the Southern Lakes Enhanced Water Storage Concept.
- We developed mitigation design concepts to offset any potential effects of the Southern Lakes Water Storage Concept.
- We continued engagement with the First Nation of Na-Cho Nyak Dun, stakeholders, and the public on the Mayo Lake Enhanced Storage Concept.
- We continued to collect hydrology data at Moon Lake.
- We did some early research into the viability of biogas as an energy option in Yukon.
- We improved our load forecasting methodology.

Implement a Yukon-wide electricity conservation/ efficiency program

- Year 1 of inCharge was implemented in October.
- With our partner ATCO Electric Yukon, we awarded close to 3,000 rebates to Yukon residential customers for LED lights, exceeding our targets.
- We led by example through an internal energy conservation/efficiencies program at Yukon Energy.



Overhauling a hydro unit. Photo: Yukon Energy

Continue to improve reliability on our system

- Of our $40-million capital budget, more than $33 million was spent on reliability projects.
- The major reliability projects included an upgrade to our Takhini substation, overhauls to some of our hydro and back-up diesel generators, and work to replace our oldest diesel generators with new natural gas units.
- The frequency of unplanned outages has dropped over the past two years, and for the second year in a row we did not have any grid-wide outages.
- The total amount of time in the year that power was out for our customers was 3.8 hours, down from 5 hours in 2013.

Complete Whitehorse Diesel to Natural Gas Conversion Project

- Substantial work took place on this project in 2014.
- Delays in receiving various permits and permissions moved the expected completion date to Spring 2015.

Complete Takhini/Whistle Bend substation upgrade

» This was completed by late 2014 all but for a final few details and was in service in early 2015.

Photo: Yukon Energy

Complete the development of partnership/project agreements with Yukon First Nations related to new energy projects.

» We finalized a Project Agreement with Kwanlin Dün First Nation regarding the Whitehorse Diesel to Natural Gas Conversion Project and made substantial progress on Investment Options Agreement.

» We finalized a Memorandum of Understanding with Ta'an Kwäch'än Council regarding the Whitehorse Diesel to Natural Gas Conversion Project, meeting our obligation under the Yukon *Oil and Gas Act*.

» We continued our support for the Kaska Dena Council's geothermal exploration program.

Support Yukon Energy's commitment to meaningful public engagement by continuing discussions with Yukoners on energy challenges and technology opportunities.

» We held extensive public and stakeholder engagement on Whitehorse Diesel to Natural Gas Conversion Project.

» Yukon Energy was a major sponsor of an Electric Thermal Storage workshop hosted by the Yukon Conservation Society.

» There were ongoing First Nation, stakeholder and public engagements for both the Southern Lakes Enhanced Storage Concept and the Mayo Lake Enhanced Storage Project.

Priorities were diverse in 2014, with a big focus on improved reliability and system upgrades. Of our $40-million capital budget, more than $33 million was spent on reliability projects.

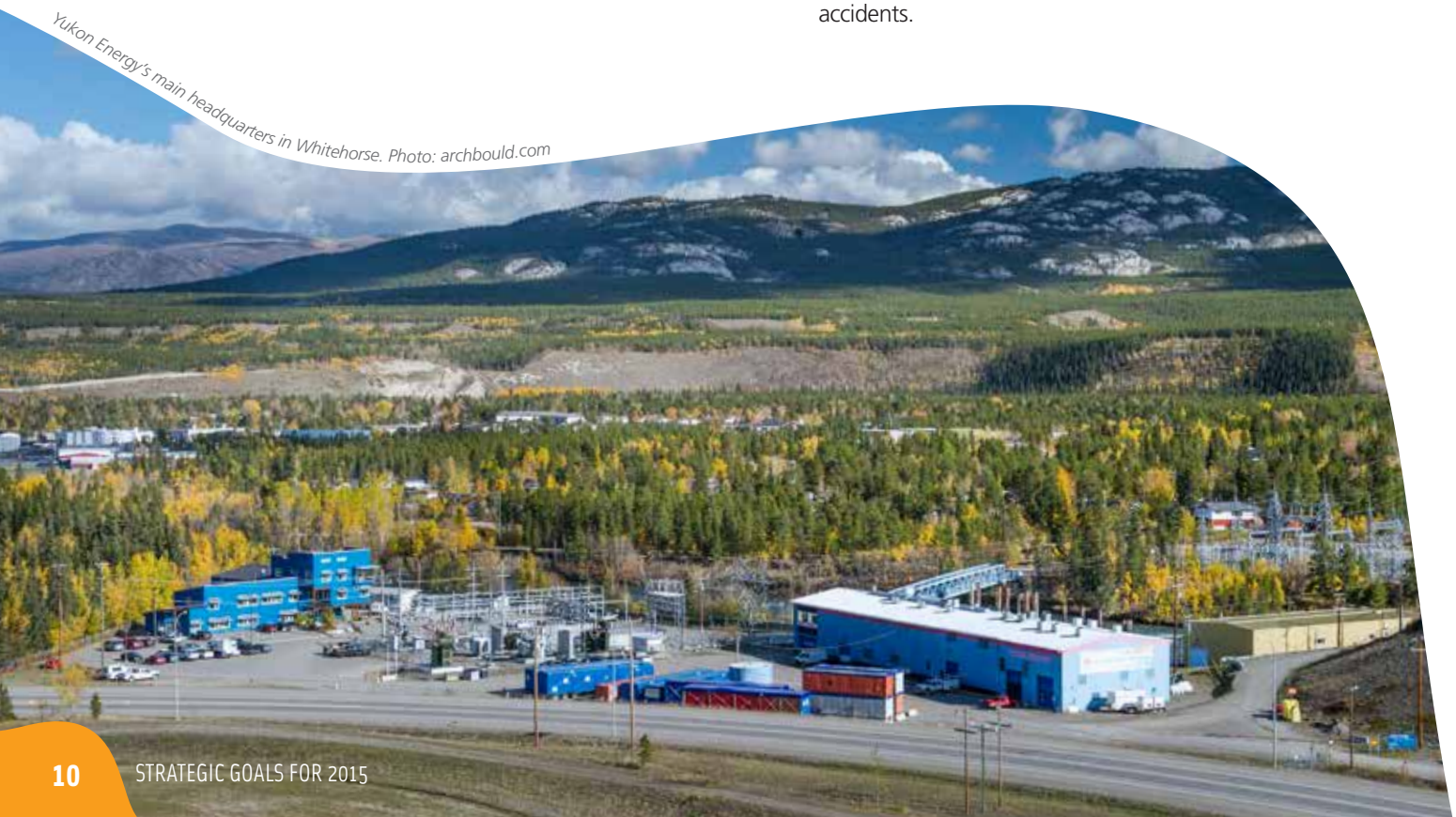
Bringing our upgraded Takhini substation into service. Photo: Yukon Energy

STRATEGIC GOALS FOR 2015

Yukon Energy's goals for 2015 provide a focal point for the planning and execution of work at all levels of the organization and provide a framework for measuring and tracking progress through the year. Management follows a "SMART" goal setting method; goals are specific, measurable, attainable, realistic and time-bounded (S.M.A.R.T.). Corporate goals were set as a starting point, and then cascaded into departmental goals and ultimately individual goals for employees.

OUR CORPORATE GOALS FOR 2015 ARE TO:

- See the LNG project completed according to the November 2014 timetable and budget;
- Complete prefeasibility planning on the next mid-scale renewable energy project;
- Develop a prioritized five-year plan for large capital projects, excluding new supply projects;
- Have fewer than ten controllable system power outages;
- Deliver a Rate of Return of 7.89 percent;
- Achieve an injury rate of no more than one; and
- Have fewer than four company motor vehicle accidents.



Yukon Energy's main headquarters in Whitehorse. Photo: archbould.com

Photo: Yukon Energy

2014 AT A GLANCE

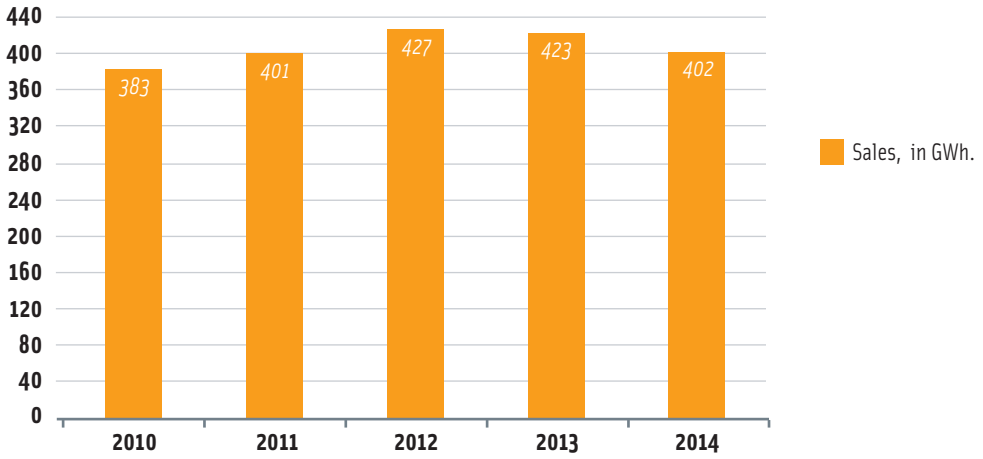
GENERATING CAPACITY:
129 MEGAWATTS

78 Peak Demand in 2014: MEGAWATTS

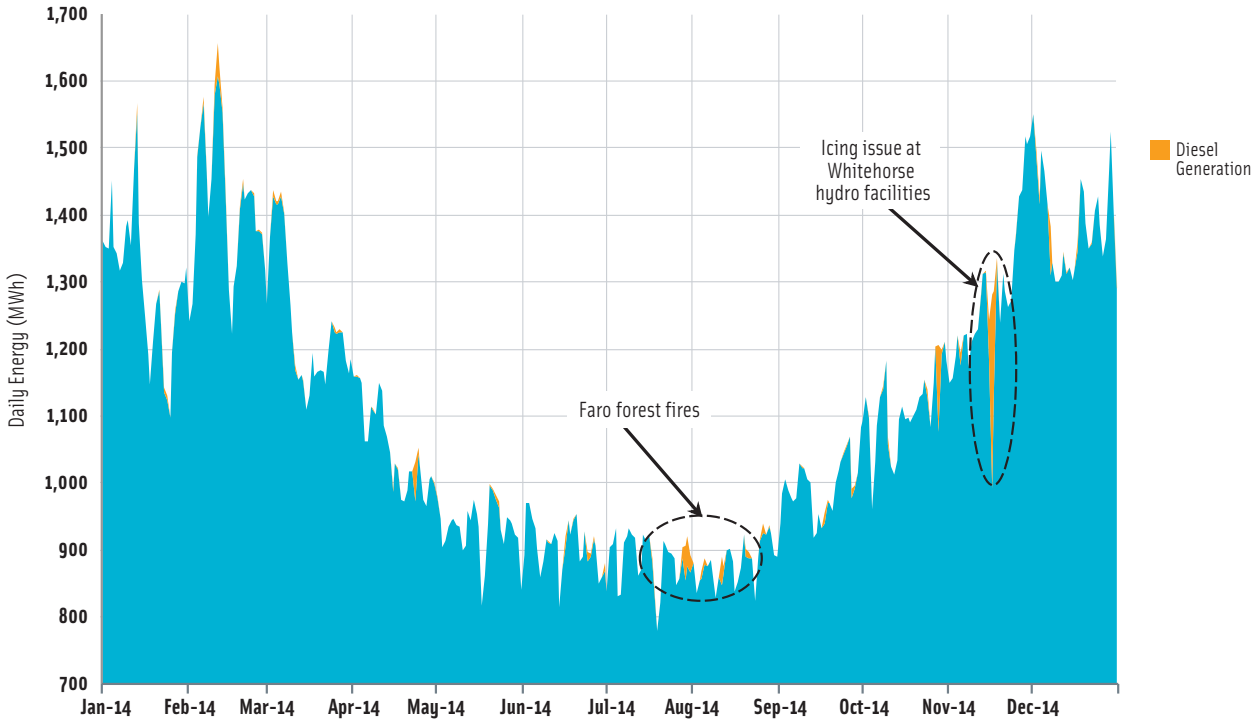
402 Electricity supplied: GIGAWATT HOURS

ELECTRICITY SALES:
$39.6 MILLION

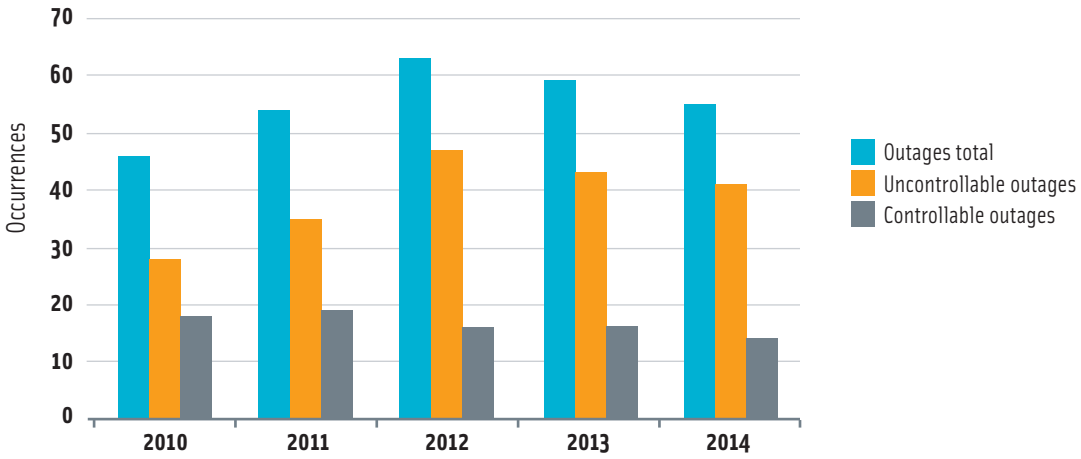
ELECTRICITY GENERATION 2010–2014



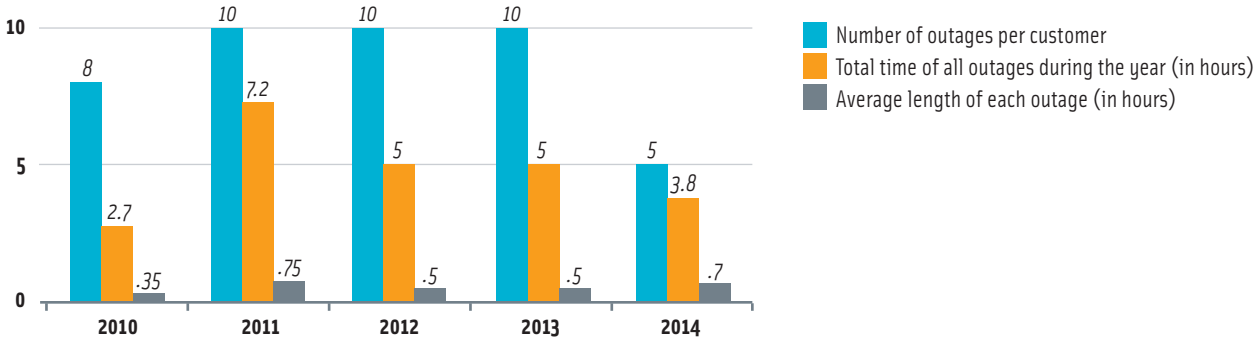
2014 GENERATION BY MONTH



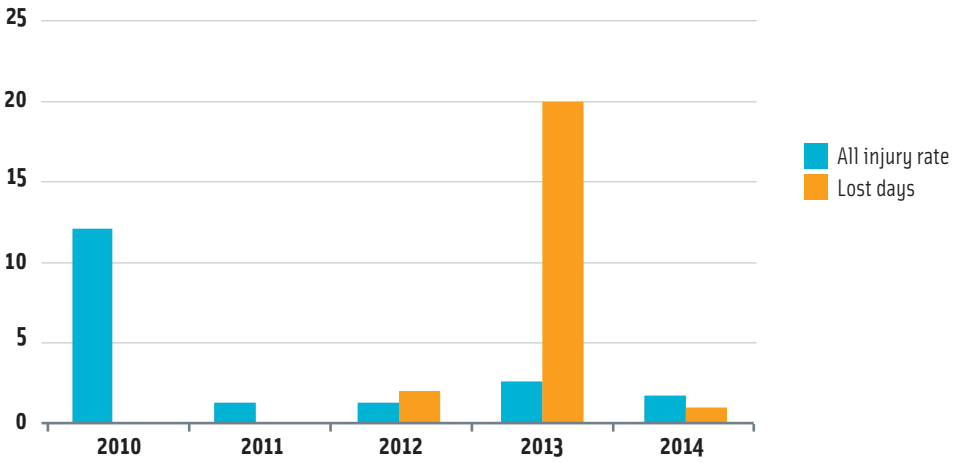
TOTAL POWER OUTAGES 2010–2014



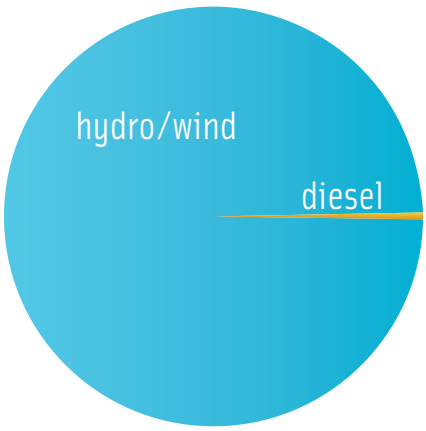
OUTAGES PER CUSTOMER; DURATION 2010–2014



INJURIES/LOST DAYS 2010–2014



GENERATION



OUR CUSTOMERS

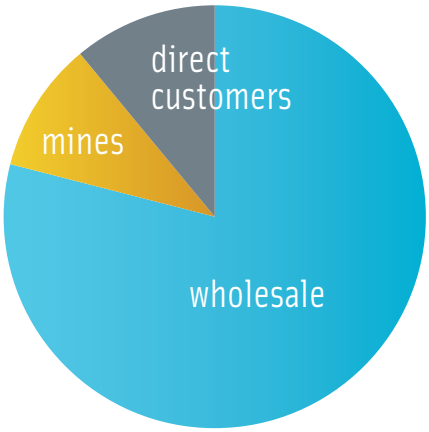


Photo: Yukon Energy

OUR STAFF

- Yukon Energy has approximately 90 employees in Whitehorse, Mayo, and Dawson City.
- In 2014, thirteen of our employees received Long Service Awards, having worked for the company for between five and 30 years.
- Two staff members completed apprenticeships.
- Eighty-four percent of our staff received training in 2014 (total training hours ~ 1,900).

It's been a big year for capital projects. The Takhini substation, first installed in the 1970s, received a significant upgrade and allowed for new loads in the Whistle Bend subdivision. Construction of the natural gas facility is nearing completion, a major undertaking that will see back-up diesel generators replaced with natural gas units.

Preparing for a concrete pour on our natural gas site. Photo: archbould.com

MAJOR CAPITAL PROJECTS

WHITEHORSE DIESEL TO NATURAL GAS CONVERSION PROJECT

» This project involves installing two natural gas units (total capacity 8.8 MW) to be used as back-up in case of emergencies, winter peaking, and to provide support during drought years.

» The new units will replace two diesel generators that are at end of life and must be retired.

» The cost of natural gas is expected to be two-thirds the price of diesel and there will be a more than 20 percent reduction in GHG emissions by switching from diesel to natural gas, providing significant benefits for Yukoners and the environment.

» Construction began in July 2014 and we expect the facility to be in operation by June 2015.

» Many of the construction contracts awarded for the Whitehorse Diesel to Natural Gas Conversion Project went to Yukon companies, including:

- Canyon City – clearing
- Ketza Construction – civil work
- Ben's Electric – grounding
- Klondike Welding – structural steel
- Wildstone – mechanical

The Whitehorse natural gas facility under construction. Photo: archbould.com

The Takhini/Whistle Bend substation undergoes a major upgrade. Photo: archbould.com

TAKHINI/WHISTLE BEND

- This was a significant upgrade to Yukon Energy's Takhini substation, first installed in the 1970s.
- This investment allows for new customer load in the Whistle Bend subdivision and west and north of Whitehorse.
- It also means the Yukon grid has greater protection from widespread outages.

OTHER IMPROVEMENTS

- We completed a refurbishment of the spillway gates and structures at the Whitehorse dam.
- We also did a major refurbishment at the Mayo Lake control structure.
- Overhauls were done to one Whitehorse hydro unit, one Whitehorse diesel generator, and one Dawson diesel unit.
- Various upgrades were made to our transmission system.

MEETING ENERGY DEMAND

INCHARGE

- Working in cooperation with ATCO Electric Yukon, Yukon Energy implemented Year 1 of a Yukon-wide two-year conservation/efficiencies program (Demand Side Management program) that focuses on electricity savings for residential customers.
- The program was launched in October 2014.
- It includes LED lighting rebates and the promotion and distribution of low-cost energy saving kits.
- Almost 3,000 rebates were given to customers for LED lights and more than 400 energy saving kits were distributed.
- Yukon Energy staff held information sessions in Dawson City, Mayo, Faro and Carcross and provided products to interested residents.
- In 2015 the inCharge program will be expanded to include rebates for block heater timers.

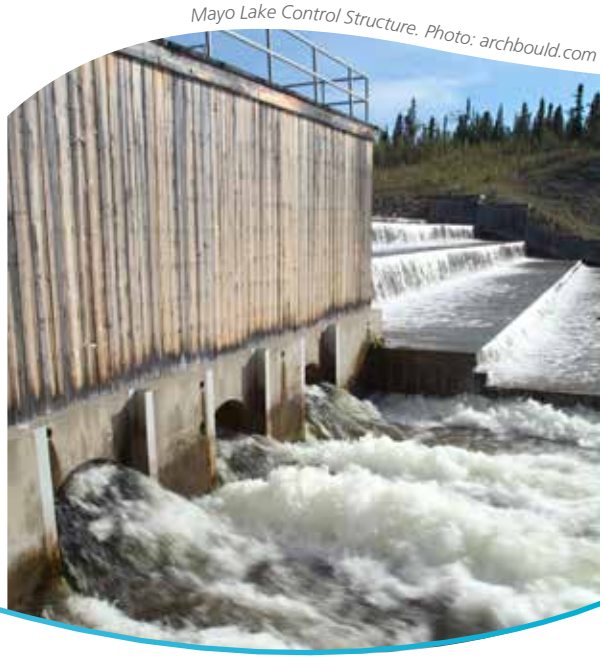
InCharge is helping residential customers save. Photo: Yukon Energy

SOUTHERN LAKES ENHANCED STORAGE CONCEPT

- The concept proposes a change to Yukon Energy's water licence so we could store extra water in Marsh, Tagish, and Bennett lakes in the fall, for use in the winter.
- This is a low-cost source of energy that would allow us to make use of existing assets.
- First Nation, stakeholder and public engagement continued in 2014, with Yukon Energy holding meetings in Southern Lakes communities and financially supporting the engagement work done by the Southern Lakes Water Level Committee, a group made up of local residents.
- In 2015 Yukon Energy expects to make a decision on whether to move forward to the next stage, which would involve a detailed review by both the Yukon Environmental and Socio-economic Assessment Board and the Yukon Water Board.

MAYO LAKE ENHANCED STORAGE CONCEPT

- Similar to the Southern Lakes concept, this potential project would see us storing more water in Mayo Lake in the fall for use in the winter.
- It is another low-cost source of energy that would allow us to make use of existing assets.
- First Nation, stakeholder and public engagement continued in 2014.



Mayo Lake Control Structure. Photo: archbould.com

WIND

- Yukon Energy is considering two options: 1) a wind farm on Tehcho (formerly Ferry Hill) near Stewart Crossing in the Central Yukon; and 2) a wind farm on Mount Sumanik near Whitehorse.
- Wind data collection at Tehcho was completed in 2014.
- In 2015 Yukon Energy will begin collecting similar wind data at Mount Sumanik, to allow us to do a fair comparison of the two sites.

Harnessing the wind in Yukon. Photo: archbould.com

HEALTH AND SAFETY

The personal safety and health of our employees is of primary importance. Prevention of work-related injuries and illnesses is always given priority over operating productivity.

KEY ACTIVITIES IN 2014:

LNG

» Yukon Energy expanded our health and safety programs to include liquefied natural gas (LNG) safety for our workers and contractors.

» Forty employees completed an LNG plant safety program and 10 more completed LNG firefighting training.

» We drafted an LNG safety program for storage, vaporization and handling and provided this document to Yukon regulators.

PUBLIC SAFETY

» We provided safety orientations for more than 300 contractors and consultants who did work for Yukon Energy.

» Once again this year we ran a public information campaign warning Yukoners of the dangers of playing or recreating near our hydro dams.

» Safety education is a key element of the school tours we conduct regularly at our Whitehorse hydro facility.

GREAT SHAKE OUT

» Yukon Energy participated in the Great Shake Out earthquake exercise sponsored by Yukon's Emergency Measures Organization.

» We updated our dam safety program and are developing dam inspection procedures specifically related to earthquakes.

HOW'S OUR DRIVING?

» Yukon Energy implemented a 1-800-How's Our Driving campaign with a phone number and fleet number on each company vehicle, making it easy for members of the public to call Yukon Energy should they notice any of our staff driving in an unsafe manner. We are happy to report we have only received a few calls to date.

PREVENTING WORK FATIGUE

» We created and implemented a fatigue management program that reflects industry best practices.

WELLNESS PROGRAM

» Fifty three employees (59 percent of our workforce) took advantage of a corporate wellness subsidy that promotes a healthy lifestyle through physical activity.

Climate change research, funded by Yukon Energy and the federal government, has shown that glaciers contribute up to 23 percent of the total annual flow volume of the upper Yukon River. As these glaciers retreat, they will continue to provide water to the Whitehorse facilities for many generations to come.

Research continues into the effects of climate change on hydro generation in Whitehorse. Photo: Yukon College

PROTECTING OUR ENVIRONMENT

Yukon Energy is a member of the Canadian Electricity Association (CEA) and as such we actively participate in the CEA's flagship Sustainable Electricity Program. Yukon Energy is also involved in several other CEA task groups and working groups related to the environment, including those focused on:

- Climate Change Adaptation
- Migratory Birds
- Species at Risk
- Environmental Stewardship
- Water Resources

2014 HIGHLIGHTS INCLUDE:

CLIMATE CHANGE

- Matching funds from Yukon Energy Corporation and the federal government allowed the Northern Climate ExChange of the Yukon Research Centre to continue its investigation into the implications of climate change on hydro generation at the Whitehorse dam.
- The research has shown that glaciers contribute up to 23 percent of the total annual flow volume of the upper Yukon River (snowfall makes up 44 per cent and rain contributes the remaining 33 percent).
- The research has also indicated that as the glaciers retreat, they will continue to provide water to the Whitehorse generating facilities for decades and probably even centuries.

A child examines some Chinook salmon fry before releasing them into Wolf Creek. Photo: Yukon Energy

MIGRATORY BIRDS

» Yukon Energy is a major supporter of the territory's premier bird festival "Celebration of Swans." We operated a live-streaming web cam that captured the activities of swans resting and feeding in an area near Marsh Lake.

Swans take flight on Yukon waters. Photo: Yukon Energy

FISH

» It was another successful season at the Whitehorse Rapids Fishladder. The ladder and interpretive centre offer opportunities for educational, scientific and cultural information gathering and sharing. In 2014, more than 21,000 people visited the interpretive centre and more than 1,600 salmon passed through the ladder compared to just over 1,100 the year before.

» Through our Whitehorse Rapids Hatchery, Yukon Energy raised 150,000 Chinook salmon fry that were released into Yukon River tributaries. Fry release day at Wolf Creek was again this year a very popular family event.

» Yukon Energy supported a Ta'an Kwäch'än First Nation initiative to re-introduce Chinook salmon to Fox Creek by providing approximately 32,000 juvenile salmon for the program.

» We also provided salmon fry to nine schools throughout Yukon for the Salmon in the Classroom program.

SUSTAINABILITY

» We continued our support for leadership in sustainable community development through an award presented at the annual meeting of the Association of Yukon Communities. This year the award went to the Village of Carmacks for an innovative recycling campaign.

» We promoted Earth Hour and monitored electricity usage during the March event. This year Yukoners reduced their usage by about 1.6 megawatts (approximately three percent), the best showing since Yukon Energy started tracking Earth Hour five years ago.

» Yukon Energy held a staff-initiated internal energy conservation contest for the month of November that included a variety of innovative ways of reducing electricity consumption at our facilities.

» Yukon Energy staff participated in the City of Whitehorse's annual 20 Minute Makeover, collecting garbage that had accumulated around our property over the winter.

Staff meet with local families to share inCharge energy savings kits. Photo: Yukon Energy

ENGAGING YUKONERS

Yukon Energy works hard to ensure we are transparent, accountable to our customers and shareholders, and have open two-way communication with Yukoners.

WE DID THIS IN 2014 THROUGH:

- Public engagement on the Whitehorse Diesel to Natural Gas Conversion Project and both the Southern Lakes and Mayo Lake Enhanced Storage Concepts
- Open Houses (Dawson, Mayo, Faro, Carmacks) related to the inCharge program
- Yukon Energy staff were trained as "energy ambassadors" and met one on one with members of the public to share inCharge energy saving kits and offer tips for energy conservation.
- Website, blog, Facebook, Twitter, YouTube
- Newsletters/brochures
- Weekly CBC Radio series on electricity issues called "Ask Janet"

BUILDING PARTNERSHIPS WITH FIRST NATIONS

Yukon Energy believes in building enduring business partnerships with local First Nations for energy projects. We devote considerable time engaging Yukon First Nations on potential energy projects and opportunities within their traditional territories.

IN 2014, YUKON ENERGY:

- Finalized a Project Agreement with the Kwanlin Dün First Nation regarding the Whitehorse Diesel to Natural Gas Conversion Project and made substantial progress on an Investment Options Agreement;
- Fulfilled obligations to the Kwanlin Dün First Nation under the Yukon Asset Construction Agreement (YACA) regarding the Takhini/Whistle Bend Project;
- Finalized a Memorandum of Understanding with Ta'an Kwäch'än Council regarding the Whitehorse Diesel to Natural Gas Conversion Project, meeting our obligation under the Yukon *Oil and Gas Act*;
- Continued our support for the Kaska Dena Council's geothermal exploration program;
- Continued our support for the Taku River Tlingit's prefeasibility study on the Pine Creek Hydro Expansion Project; and
- Signed a Renewable Energy Memorandum of Understanding with the Teslin Tlingit Council.

Building lasting partnerships for energy projects. Photo: Yukon Energy

Brave employees take on the ALS ice bucket challenge to raise money and awareness. Photo: Yukon Energy

SUPPORTING OUR COMMUNITIES

While Yukon Energy's primary job is to ensure a secure and sustainable energy future, we also feel a responsibility to help Yukon communities be as strong and healthy as possible.

IN 2014 WE:

» Donated $77,000 to approximately 40 community groups, including:

- Whitehorse Food Bank
- Young Women Exploring Trades Career Fair
- Sourdough Rendezvous Superstar Contest
- Humane Society Yukon
- Kona's Coalition
- Available Light Film Festival
- Dawson City International Short Film Festival
- Mayo Fly-By-Night Running Club
- Music Yukon
- Society of Yukon Bird Observatories
- Mayo Curling Club
- Whitehorse Connects
- Blood ties
- Breakdancing Yukon
- Dawson City Music Festival

» Awarded five scholarships for pre-apprenticeship and post-secondary programs;

» Were a major sponsor of an Electric Thermal Storage workshop hosted by the Yukon Conservation Society; and

» Provided tours of the Whitehorse generating facilities and fishladder to school groups.

Photo: archbould.com

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors at Yukon Energy oversees the conduct of business, establishes the strategic direction, and supervises Management, which is in turn responsible for the day-to-day operations at Yukon Energy. The Board models its approach to corporate governance on best practices in Canada and abroad, as reflected in the advice and recommendations of bodies such as the Conference Board of Canada, the Directors' College and the Institute of Corporate Directors.

BOARD OF DIRECTORS' APPOINTMENTS

Section 3(1) of the *Yukon Development Corporation Act Regulations (*OIC 1993/108) sets out the process for being appointed to the Yukon Energy board. The Board of the Yukon Development Corporation (YDC) is appointed by the Yukon government and in turn the YDC board appoints the board of Yukon Energy.

As of December 31, 2014, our Board of Directors include:

- Piers McDonald, Chair
- Justin Ferbey
- Glenn Hart
- Georgina Leslie
- Diane Lister
- Clint McCuaig
- Wendy Shanks
- Erin Stehelin

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) contains forward-looking statements, including statements regarding the business and anticipated financial performance of Yukon Energy Corporation. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

CORE BUSINESS AND STRATEGY

Our business is to generate, transmit and distribute electrical energy throughout Yukon. We strive for this energy to be cost-effective, sustainable, clean and reliable. Our primary source of power comes from our legacy hydro assets, and our goal is to minimize the use of non-renewable sources due to higher variable cost and environmental impacts.

Non-controllable factors greatly influence our business. These non-controllable factors shape our key strategies to minimize the potential negative impact. The level of water inflows, customer load, market prices for commodities, weather, interest rates and foreign exchange rates all have an impact.

Normal water inflows to our hydro reservoirs allow us to meet current demand predominantly with hydro-generated power. In 2014, approximately 99.6 percent of our generation was sourced from hydro-based plants. We are at risk of both demand increasing and water inflows decreasing. Demand increase can come from population growth as well as economic expansion such as large industrial customers. Population growth in Yukon slowed to a modest increase of 0.4 percent in 2014. However, this follows ten straight years of significant growth. Weakness in mineral prices and a general slowdown in the global mining industry contributed to less activity in a variety of areas of Yukon's mining sector, with exploration, production and development activities all negatively impacted in 2014. For 2015, population growth of 0.6 percent is projected. Additionally, GDP is forecast to grow by 2.0 percent fueled partly by increases in mineral production.

Water inflows decrease during a drought, and droughts typically occur over a period of years which compound the impacts. We do not expect a shortage of water in 2015. At Aishihik, the current snow pack is below normal. However, the forecast for the reservoir is to be operationally full by fall due to a summertime plant shutdown. In Mayo, the current snow pack is normal to above normal, and the forecast for the reservoir is to be operationally full by fall. The current snow pack around Marsh Lake is normal and the forecast is for the reservoir to be operationally full by fall.

As an isolated grid, any event that constrains hydro generation in the short term (e.g. high demand, low water) is addressed with thermal generation. To mitigate the longer term risk of expensive thermal generation, the Corporation has allocated capital spending to projects to expand clean energy capacity in the future by, for example, increased storage of water in existing reservoirs and/or demand side management programs. Yukon Energy regularly models the projected supply-demand balance of the system over the short term to plan optimum system operations.

CAPABILITY TO DELIVER RESULTS

In order to be able to deliver on our strategy and achieve planned results, Yukon Energy requires resources and relationships. We must also take into account the associated risks.

Resources include leadership, labour force, working capital and other aspects of liquidity, capital structure, capital resources, and systems and processes. There has been a significant change in our leadership recently consisting of a new CEO as well as a new Chairman of the Board. Changes in leadership can result in substantial changes in direction and focus. We develop human resources policies to adapt to our seasoned work force. We monitor and forecast our cash and financial strength on an on-going basis. This includes current and future year projections. On January 1, 2015, we will re-negotiate our long term debt with our parent, Yukon Development Corporation (YDC). This agreement will extend the date of the debt repayments as well as provide a more favourable interest rate. We expect to require cash to finance our capital additions in 2015 and are in the process of assessing our options. Through established policies and procedures Yukon Energy maintains a capital structure ratio of 60 percent debt and 40 percent equity. External borrowings require the approval of the Yukon government. To assist with the equity financing in 2015, we did not provide our parent with a dividend in 2014 and ended the year with a debt to equity ratio of 58/42. We continually monitor and assess the condition of our assets, and allocate a material portion of our capital budget for maintenance of these assets, thereby ensuring the reliability of service to our customers.

Some of our key relationships include the Yukon government, YDC, First Nations and our primary banker TD Bank. The Yukon government recently announced funding through YDC to improve the transmission infrastructure between Mayo and Keno. This funding will be applied to the permitting and preliminary engineering processes. This upgrade will provide for future growth in the area while improving the reliability of the electrical grid as a whole. We hold long-term debt through TD Bank and YDC. TD Bank also provides us with a line of credit to fund short-term cash shortfalls if needed.

Yukon Energy's systems control centre. Photo: GBP

RISK MANAGEMENT

Yukon Energy manages a variety of risks in providing service to our customers. The negative impact of a risk event can affect safety, environment, financial results, service reliability and reputation. These risks can range in scale from minor to catastrophic. We strive 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. The Chief Financial Officer is charged with the development of the enterprise risk management framework across the entire Corporation, which will provide for the basis of consistent application of risk management practices.

The generation, transmission and distribution of electricity inherently results in certain safety risks to Yukon Energy employees and the public. To manage employee, contractor and public safety, the Corporation has developed and implemented health and safety programs that meet established standards for the industry. As well, we have achieved and maintained certification in the territorial Certificate of Recognition program, issued by Northern Safety Network Yukon.

Significant risks to the reliability of our system include aging infrastructure, severe weather and other natural disasters. Yukon Energy manages these risks through long-term planning, asset maintenance and replacement programs and emergency response programs.

Dams and spillways represent extreme consequence but low probability risks in terms of life, safety, financial, environmental and reputation loss. These risks are managed through a comprehensive dam safety management system involving dam safety professionals and experts. Dams are continually monitored and maintained to ensure reliable operation.

Yukon Energy is exposed to the risk of non-compliance with environmental regulations when there are impacts to fish and wildlife and/or their habitats and risks related to releases to the environment. These risks are managed through our environmental management systems, regulatory agreements, work procedures and a variety of site-specific environmental risk management strategies.

The majority of construction projects will require some form of review by the territorial socio-economic/ environmental assessment board, as well as permits from relevant regulators (e.g. Water Board, Oil and Gas branch, Department of Fisheries and Oceans, etc.).

In addition to environmental regulation, Yukon Energy has risk exposure under several other regulatory regimes: of greatest significance, the recovery of costs and return is subject to the decisions of the Yukon Utilities Board as defined in the *Public Utilities Act*; second, utility operations are specifically regulated by a number of acts pertaining to resource management (e.g. water management, emissions controls, etc.). Management mitigates the risk from these areas by having accountable staff monitor compliance at all times and take corrective action as necessary.

First Nation traditional territories encompass the entire Yukon. Yukon Energy devotes considerable resources communicating with First Nations to ensure we understand and can pro-actively respond to their community priorities. Outside of the obvious impact to project budgets and schedules, failure to do so could result in project delays, increased costs and operational issues. We are actively engaged with several First Nations discussing potential energy projects in their respective territories.

Yukon Energy faces many risks in meeting our financial performance targets, including uncertain economic conditions, variable costs and revenues driven by commodity costs, energy demand, interest and foreign exchange rates as well as pension obligations. Many financial risks associated with non-controllable costs and large, non-recurring costs are mitigated through regulatory accounts. The diesel contingency fund was established to lessen the risk relating to low water inflows to our hydro reservoirs. Industrial sales to one customer represent a significant portion of overall sales, and these can fluctuate widely. New industrial customers can result in a strain on our limited hydro generation, while a loss of an industrial customer can result in a loss of revenue whereas our costs are largely fixed in the short term. As part of continuous resource planning, we are reviewing different approaches to supply load based on forecast demand growth. To mitigate the risk of decreased demand, we are focusing on adding secondary sales customers to our grid.

RESULTS AND OUTLOOK

Net income for the 2014 fiscal year was $7.7 million, $0.4 million above the prior year net income of $7.3 million. The increase from the prior year was primarily due to higher sales of power while other revenues and expenses were relatively consistent. We have increased our 2015 target net income to $8.4 million resulting mainly from a small increase in sales, a reduction in non-labour operating expenses, and significant interest savings resulting from debt refinancing.

Revenue from the sales of power was $39.6 million, $0.8 million higher than the prior year primarily due to decreased regulatory transfers to the diesel contingency fund. The funding required for the diesel contingency fund was lower by $2.2 million due to lower overall generation. This was partially offset by a reduction in industrial sales as a result of a loss of a customer during 2013. We expect a slight increase in revenue in 2015 due to a small increase in wholesales and an increased focus on secondary sales.

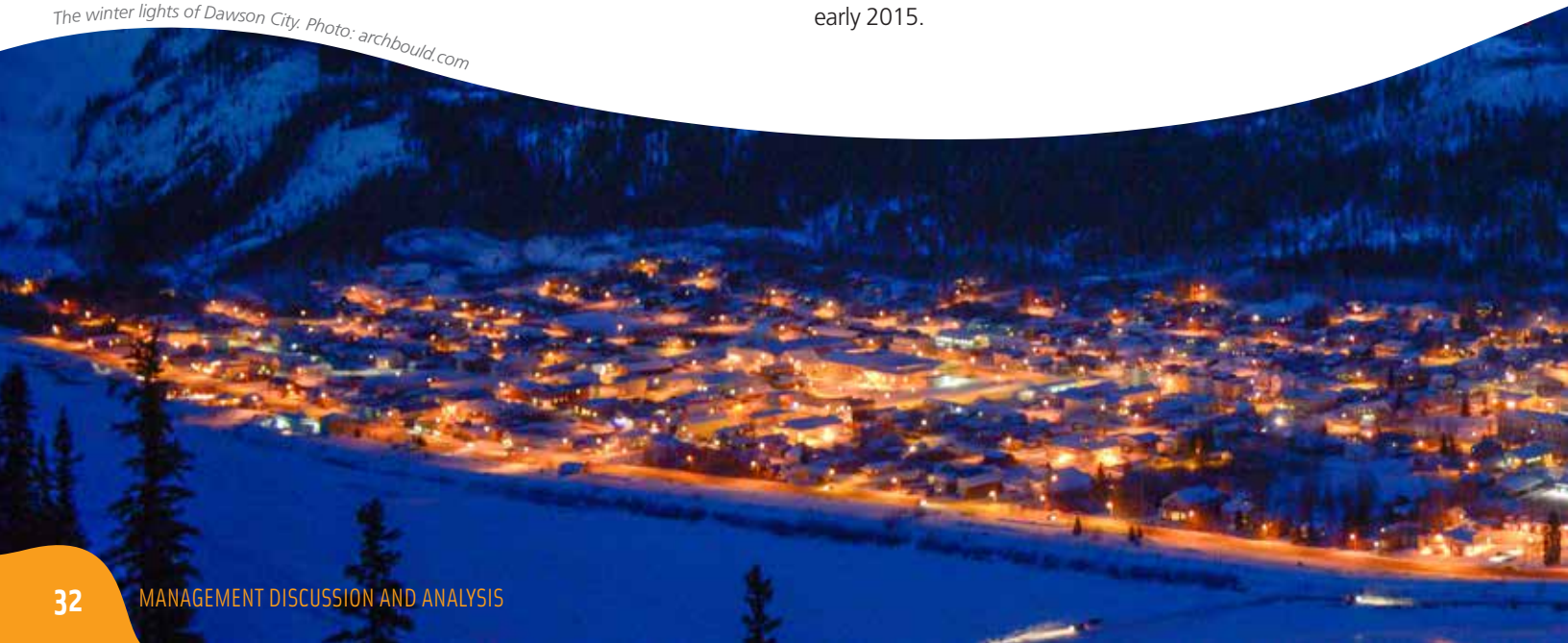
Hydro generation stayed constant compared to the prior year with 99.6 percent of total generation being hydro. Diesel generation fell by 0.1 percent resulting in a reduction in fuel expense of $0.1 million. In 2015, we will slightly decrease our forecast of hydro generation to 99.4 percent of total generation due to higher than expected peaking thermal generation.

The regulated rate of return on equity in 2014 was 8.38 percent, up from 7.39 percent in the prior year, and above the target of 8.25 percent. The positive variance from the target resulted mainly from variances in the transfer to the diesel contingency fund and a static rate base. The forecast ROE for 2015 is 8.31 percent, a slight decrease from 2014 due to increases in rate base resulting from the completion of the Takhini/Whistle Bend substation and LNG projects.

In order to maintain a total debt to total capitalization of 60 percent, a 2014 dividend of $7.6 million would be required. However, the dividend was not declared in anticipation of higher equity requirements in 2015, resulting in total debt capitalization of 58 percent as at December 31, 2014. We currently anticipate an equity injection of $10.2 million in 2015.

Capital expenditures for the year were $40.2 million, up from $29.4 million in the prior year. The investment consisted of maintenance capital on existing assets ($9.1 million), strategic (large) projects ($27.4 million) and projects for future growth and additional capacity, and feasibility studies ($3.7 million). Our 2015 capital budget has decreased to $27.2 million resulting from the expected completion of several major projects in early 2015.

The winter lights of Dawson City. Photo: archbould.com



KEY PERFORMANCE DRIVERS

There are several performance drivers and key performance indicators that are critical to successful implementation of our strategy and achievement of our goals.

In the process of regulating and setting rates for Yukon Energy, the Yukon Utilities Board (YUB) must ensure that the rates are sufficient to allow us to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve a reasonable annual rate of return on equity (ROE). The YUB has regulated our return on equity at 8.25 percent. As such, we annually set our business plan so that our goal is to achieve that ROE of 8.25. The use of regulatory accounts is common amongst regulated utility industries throughout North America. Yukon Energy uses various regulatory accounts, in compliance with YUB orders, to better match costs and benefits for different generations of customers, smooth out the rate impact of large non-recurring costs, and defer to future periods differences between forecast and actual costs or revenues. Regulatory accounts allow us to defer certain types of revenue and cost variances through transfers to and from accounts which would otherwise be included in net income. The deferred amounts are then included in customer rates in future periods, subject to approval by the YUB.

A stable workforce is crucial for delivering services required to achieve our business objectives. We regularly monitor our vacancy rate to ensure staffing is at appropriate levels. We set our human resource policies to recruit and retain a competent work force, provide opportunities for professional development and perform succession planning. Our 2014 vacancy rate was at a historically low rate of 1.44 percent. The lower the vacancy rate, the more capability we have to accomplish our goals.

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 measures and takes action when actual performance deviates from forecast.

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.

Overhauling one of the Whitehorse hydro units. Photo: Yukon Energy

FINANCIAL STATEMENTS
DECEMBER 31, 2014

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation 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.

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 8, 2015

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Yukon Energy Corporation, which comprise the balance sheet as at 31 December 2014, and the statement of operations, comprehensive income and retained earnings and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

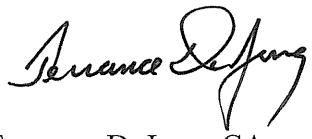
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Yukon Energy Corporation as at 31 December 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

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



Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

8 May 2015
Edmonton, Canada

Yukon Energy Corporation
Balance Sheet
(in thousands of dollars)

As at December 31,	2014	2013
Assets		
Current		
Cash (note 4)	$ 160	$ 8,315
Accounts receivable (Note 5)	7,081	8,415
Materials and supplies	3,065	3,222
Derivative related asset (Note 25)	-	430
Prepaid expenses	719	672
	11,025	21,054
Deferred uninsured losses (Note 6)	**300**	330
Property, plant and equipment (Note 7)	**434,435**	405,798
Deferred charges and intangible assets (Note 8)	**26,707**	24,749
	$ 472,467	$ 451,931
Liabilities		
Current		
Bank indebtedness (Note 9)	$ 1,331	$ -
Accounts payable and accrued liabilities (Note 10)	14,952	12,303
Construction financing (Note 11)	42,880	20,385
Derivative related liability (Note 26)	213	-
Current portion of long-term debt (Note 17)	5,456	5,406
	64,832	38,094
Long-term construction financing (Note 11)	**-**	12,000
Long-term pension liability (Note 22)	**950**	1,160
Contributions in aid of construction (Note 12)	**166,913**	170,206
Future removal and site restoration costs (Note 13)	**4,671**	4,671
Decommissioning fund (Note 14)	**2,586**	2,553
Regulatory hearing reserve (Note 15)	**224**	106
Diesel contingency fund (Note 16)	**9,627**	8,198
Long-term debt (Note 17)	**125,955**	125,906
	375,758	362,894
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	**39,000**	39,000
Contributed surplus	**14,600**	14,600
Retained earnings	**43,109**	35,437
	96,709	89,037
	$ 472,467	$ 451,931

Commitments and Contingencies (Notes 23 and 24)
The accompanying notes are an integral part of the financial statements.
Approved by the Board

_____, Chair _____, Director

Yukon Energy Corporation

Statement of Operations, Comprehensive Income and Retained Earnings
(in thousands of dollars)

For the year ended December 31,	2014	2013
Revenue		
Sales of power (Note 18)	$ 39,624	$ 38,842
Funding from parent	-	1,249
Other	340	401
	$ 39,964	$ 40,492
Operating expenses		
Operations and maintenance (Note 19)	$ 10,057	$ 9,983
Administration (Note 20)	10,173	10,196
Amortization of property, plant and equipment	6,473	6,435
Amortization of deferred charges	2,199	2,677
Amortization of intangible assets (Note 8)	568	1,813
	29,470	31,104
Income from operations	**$ 10,494**	$ 9,388
Other income		
Allowance for funds used during construction	$ 1,188	$ 927
Amortization of capital assistance	1,409	1,408
Interest income	113	-
	2,710	2,335
Other expenses		
Interest on borrowings	$ 4,662	$ 4,738
Unrealized loss (gain) on interest rate swap (Note 26)	644	(585)
Provision for uninsured losses (Note 6)	226	226
	5,532	4,379
Net income	**$ 7,672**	$ 7,344
Other comprehensive income	**-**	**-**
Comprehensive income	**$ 7,672**	$ 7,344
Retained earnings, beginning of year	**35,437**	35,044
Dividend	**-**	(6,951)
Retained earnings, end of year	**$ 43,109**	$ 35,437

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

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

For the year ended December 31,	2014	2013
Operating activities		
Cash receipts from customers	$ 42,274	$ 46,239
Cash paid to employees and suppliers	(19,156)	(23,111)
Interest paid	(4,663)	(5,127)
Interest received	113	-
Cash provided by operating activities	**18,568**	18,001
Financing activities		
Receipt of construction financing	16,000	24,000
Repayment of construction financing	-	(12,000)
Repayment of long-term debt	(5,406)	(5,356)
Contributions in aid of construction	732	2,469
Cash provided by financing activities	**11,326**	9,113
Investing activities		
Additions to property, plant and equipment	(35,249)	(27,847)
Additions to deferred charges and intangible assets	(4,131)	(1,514)
Cash used in investment activities	**(39,380)**	(29,361)
Net decrease in cash	**(9,486)**	(2,247)
Cash, beginning of year	**8,315**	10,562
Cash end of year	**$ (1,171)**	$ 8,315
Cash includes:		
Cash (Note 4)	$ 160	$ 8,315
Bank indebtedness	(1,331)	-
Total	$ (1,171)	$ 8,315

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

December 31, 2014

1. NATURE OF OPERATIONS

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 (YG or "the Government"). Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Water Board. Both boards are independent from the Utility.

Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. 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. 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. 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 Yukon Government through Orders-In-Council 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 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 amortization of all capital equipment; and
- the return on rate base (the borrowing costs related to borrowing that portion of the rate base which is financed with debt plus the costs to provide a reasonable rate of return on that portion of the 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 asset depreciation rates, which are periodically updated by the Utility through depreciation studies.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 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.

Water regulation

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

1. NATURE OF OPERATIONS - continued

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 27).

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation
The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of rate regulated bodies. The regulatory accounting policies adopted by the Utility differ from the accounting policies prescribed by using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. The impact on the financial statements of accounting for rate regulated operations are further described in Note 3. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Allowance for funds used during construction
The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The calculation of the estimate is based on the Utility's weighted average cost of debt. The AFUDC rate estimate was 4.01% for 2014 (2013 - 4.00%).

Property, plant and equipment
The gain or loss on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, is deferred and amortized over the remaining expected useful lives of the assets.

Deferred uninsured losses
The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Future removal and site restoration costs
The Utility maintains a general provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets.

As Per YUB Order 2005-12 no additional annual provision is permitted to this account.

This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Regulatory hearing reserve
The Utility established a new deferral account for regulatory hearing costs which was approved by the YUB as part of the 2012-2013 GRA and YUB Order 2013-01. The annual provision is collected through customer rates. Variances between the annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges
Deferred charges are recorded at cost and include an AFUDC component as allowed by the YUB.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the YUB.

Costs of feasibility studies and infrastructure planning which did not result in a capital project are amortized over terms ranging between five and ten years.

IFRS planning costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB.

Deferred Vegetation management costs are brushing costs in excess of an annual amount approved by the YUB.

Deferred insurance proceeds
Deferred insurance proceeds represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The proceeds are being amortized to income on the same basis as the replacement assets.

Diesel Contingency Fund
The Diesel Contingency Fund (DCF) was established by YUB Order 1996-6 through the Negotiated settlement process. The DCF is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The DCF attracts interest based upon short-term bond rates. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. The Utility is required to file quarterly reports with the YUB on the DCF's activity. See Note 3 for further explanation.

Generally Accepted Accounting Principles
Materials and supplies
Diesel fuel, materials and supplies are recorded at the lesser of average cost and net realizable value. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined. Major spare parts are recorded in the Utility's books as property, plant and equipment.

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Property, plant and equipment is stated at cost and includes an AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, applicable actual directly attributable administration overhead, and, if applicable, direct finance charges capitalized during construction, less accumulated amortization. The estimated service lives and removal costs of the assets is based upon depreciation studies conducted periodically by the Utility.

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 103 years
Diesel 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

Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's Parent, the Yukon Government or the Government of Canada. These contributions are deferred upon receipt and amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers and the Government of Canada is netted on the statement of operations against amortization expense while amortization of capital assistance from the Parent or the Yukon Government is disclosed separately under Other income.

Deferred licensing costs

Costs related to obtaining license renewals for hydro and diesel generation facilities are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under separate licenses, with terms ranging from 17 to 25 years. Diesel generation air emission permits have a term of three years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the license.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Environmental liabilities
Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated.

If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Utility reviews its estimates of future environmental liabilities on an ongoing basis as described in Note 25.

Financial instruments
Financial assets and financial liabilities are recognized on the Utility's balance sheet when the Utility becomes party to the contractual provisions of the instrument.

Cash
Cash is comprised of cash on hand and in bank accounts.

Accounts receivable
Accounts receivable, classified as loans and receivable, are initially measured at fair value. Subsequent to initial recognition, accounts receivable are measured at amortized cost using the effective interest rate method less any impairment.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities, classified as other financial liabilities, are measured at amortized cost using the effective interest rate method.

Construction financing and Long term debt
Construction financing and long term debt, classified as other financial liabilities, are initially recognized at fair value. Subsequent to initial recognition, construction financing and long term debt are measured at amortized cost using the effective interest rate method.

Transaction costs
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 direct financing costs.

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

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Fair value estimation

The carrying value of the cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their fair value due to the immediate or short term maturity of these financial instruments. 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. The fair value of derivative financial instruments is estimated using standard market valuation techniques and is provided to the Utility by the financial institution that is the counterparty to the transactions.

Employee pension plan

The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest-paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan.

Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

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. Pension costs include the adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight-line basis over the expected average remaining service period of active employees, which is currently 8 years for the employee plan (2013 - 8 years) and 2 years for the executive plan (2013 - 3 years). The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

Revenue recognition

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

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and regulated assets and liabilities. Actual results could differ by a significant amount from these estimates. Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in Note 3.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

ACCOUNTING CHANGES

Future Accounting Changes

In February 2013, the Canadian Accounting Standards Board extended its existing deferral of the mandatory changeover to International Financial Reporting Standards ("IFRS") for entities with rate regulated activities to January 1, 2015. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. IFRS 14, 'Regulatory deferral accounts', has been issued and this standard permits first-time adopters of IFRS to elect to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. The standard requires that the effect of rate regulation must be presented separately from other items. The Utility will be required to prepare its financial statements in accordance with IFRS for its fiscal year ending December 31, 2015. The IFRS statements will have comparative financial information and an opening statement of financial position beginning as of January 1, 2014.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Diesel Contingency Fund and Energy Reconciliation Adjustment

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and ERA provisions of the Wholesale Primary rate schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes. In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. A decision was delivered February 6, 2015. In accordance with YUB Order 2015-01, the Utility defers any excess revenues collected from rate payers when the cost of diesel fuel consumed in the period is less than the long-term average diesel requirement estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the period when the cost of diesel fuel incurred for the period is greater than the long-term average diesel requirement and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- $8 million for the DCF. If the balance falls outside of this range, YEC is to make an application to the YUB to dispense with the excess (Note 16). In accordance with YUB Order 2015-01, the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015.

Regulatory Accounts

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation. Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred regulatory accounts are recognized in income in the period that the YUB renders a subsequent decision. Regulatory assets represent future costs associated with certain revenues, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities 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 the Utility's net income would have decreased by $1,307,000 in 2014 (2013 - increased by $4,240,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

(tabular amounts in thousands of dollars)

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

	2014	2013	Expected remaining recovery/ settlement (years)	For 2014: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred Fuel Price Adjustment	$ 19	$ 6	Indeterminate	$ (13)
Deferred charges (Note 8), net book value				
Feasibility studies and infrastructure planning	17,452	16,481	5 to 10	(971)
Deferred customer service costs	379	443	12	64
Regulatory costs	3,045	2,722	10 to 45	(323)
Dam safety review	24	48	5	24
IFRS planning	227	340	Indeterminate	113
Vegetation management	917	-	Indeterminate	(917)
Deferred uninsured losses (Note 6)	300	330	Indeterminate	30
Deferred overhauls	5,269	3,600	5 to 10	(598)
	27,632	23,970		(2,591)
Regulatory liabilities:				
Deferred insurance proceeds (Note 12)	5,752	6,015	25	(263)
Future removal and site restoration costs (Note 13)	4,671	4,671	Indeterminate	-
Hearing reserve (Note 15)	224	106	Indeterminate	118
Diesel contingency fund (Note 16)	9,627	8,198	Indeterminate	1,429
	20,274	18,990		1,284
Net impact of assets and liabilities	$ 7,358	$ 4,980		$ (1,307)

Regulatory assets

(a) Deferred charges

Deferred charges represent incurred costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies and infrastructure planning

The Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2014 would have been $971,000 higher (2013 - $832,000 lower expenses).

Deferred customer service costs

These are costs associated with negotiating terms of service with a new industrial customer in 2008. In the absence of rate regulation, expenses in 2014 would have been $64,000 lower (2013 - $64,000 lower expenses).

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

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. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2014 would have been $323,000 higher (2013 - $228,000 lower expenses).

Dam safety review
The Utility has a program of conducting reviews of the safety 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 amortized over five years as approved by the Utility's Regulator. In the absence of rate regulation, expenses in 2014 would have been $24,000 lower (2013 - $24,000 lower expenses).

IFRS planning
These costs are associated with the accounting conversion from Canadian GAAP to IFRS. In the absence of rate regulation, expenses in 2014 would have been $113,000 lower (2013 - $128,000 lower expenses).

Vegetation management
These deferred costs are associated with annual brushing costs in excess of the maximum amount approved by the YUB. Amortization of these costs has not yet been approved. In the absence of rate regulation, expenses in 2014 would have been $917,000 higher (2013 - $Nil).

(b) Deferred uninsured losses
The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved by the YUB. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2014 would have been lower by $30,000 (2013 - $178,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(c) Deferred overhauls
Overhauls represent costs incurred to overhaul engines that are in operations. The Utility was directed by YUB Order 2013-01 to defer all overhaul costs incurred after 2011 in work in progress until the Utility comes before the Board for a prudence review and the costs are approved to be capitalized. GAAP would require that major overhauls that extend the life of the asset be capitalized and amortized over the remaining useful life of the asset while all other overhauls are expensed in the year incurred. Total deferred overhaul costs were $5,269,000 in 2014 (2013 - $3,600,000). In the absence of rate regulation, amortization expense in 2014 would have been $598,000 higher (2013 – $229,000 higher).

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory liabilities

(d) Deferred insurance proceeds

The deferred insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, in the absence of rate regulation, the Utility's net income in 2014 would have been lower by the amount of the amortization of $263,000 (2013 - $261,000 lower).

(e) Future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2014 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $Nil (2013 expenses - $40,000 higher).

The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(f) Regulatory hearing reserve

Pursuant to the 2012-2013 GRA and YUB Order 2013-01 the Utility has established a new deferral account for future regulatory hearing costs. Included in the GRA is $550,000 related to estimated hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. In a non-regulated industry, hearing costs would be expensed in the year incurred. In the absence of rate regulation, the Utility's 2014 expense would have been $118,000 lower (2013 - $106,000 lower).

(g) Diesel contingency fund

Under GAAP any amounts earned or incurred related to the DCF would be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income for 2014 would have been higher by $1,429,000 (2013 - $3,570,000 higher).

(h) Fuel price adjustment

OIC 1998/90 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 YUB approved rates is deferred and recovered from or refunded to customers in a future period.

(tabular amounts in thousands of dollars)

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2014, fuel expenses were recovered and consequently higher by $13,000 (2013 - fuel expense higher by $4,000).

Other items affected by rate regulation
It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB in assessing the amount the Utility is entitled to as a return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the YUB which could result in material adjustments to these assets and liabilities.

4. CASH

The cash balance includes an amount of $Nil (2013 - $1,292,000) that is restricted for the payment of a contractor holdback.

5. ACCOUNTS RECEIVABLE

		2014		2013
Wholesale energy sales	$	3,800	$	5,401
Retail energy sales		1,485		1,869
Other		1,796		1,145
	$	**7,081**	$	8,415

Included in Accounts Receivable Other is an amount equal to $ Nil (2013 - $453,000) for additional ERA revenue receivable. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See Note 3 for further explanation.

(tabular amounts in thousands of dollars)

6. DEFERRED UNINSURED LOSSES

	2014	2013
Opening balance	$ 330	$ 152
Provision	(226)	(226)
Losses incurred		
Asset replacements	196	404
Closing balance	**$ 300**	$ 330

In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to amortize the negative balance in the account reamining at that time of $180,000 over a five-year period starting in 2012. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year.

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	**2014** Net book Value	2013 Net book Value
Generation	$ 292,429	$ 70,171	$ 222,258	$ 221,463
Transmission	149,947	26,118	123,829	124,992
Distribution	30,387	13,592	16,795	17,253
Buildings and other equipment	23,564	9,652	13,912	13,958
Transportation	4,549	1,584	2,965	2,886
Land and land rights	1,457	-	1,457	1,109
Construction-in-progress	53,219	-	53,219	24,137
	$ 555,552	**$ 121,117**	**$ 434,435**	$ 405,798

8. DEFERRED CHARGES AND INTANGIBLE ASSETS

	Cost	Accumulated Amortization	**2014** Net book Value	2013 Net book Value
Intangible assets:				
Deferred licensing costs	$ 11,202	$ 6,539	$ 4,663	$ 4,715
Deferred charges:				
Feasibility studies and infrastructure planning	22,124	4,672	17,452	16,481
IFRS planning	566	339	227	340
Regulatory costs	6,045	3,000	3,045	2,722
Deferred customer service costs	769	390	379	443
Dam safety review	332	308	24	48
Vegetation management costs	917	-	917	-
	$ 41,955	**$ 15,248**	**$ 26,707**	$ 24,749

(tabular amounts in thousands of dollars)

8. DEFERRED CHARGES AND INTANGIBLE ASSETS - continued

Included in deferred licensing costs accumulated amortization is $1,249,000 of costs of planning and engineering for the Mayo Lake Enhanced Storage Project. This 2013 expense is matched by 2013 funding revenue from the Parent (Note 21).

Regulatory costs includes amounts that the Utility has been directed to hold by the regulator or to depreciate over time. This includes resource plans, hearing costs from before 2012 and demand side management costs.

9. BANK INDEBTEDNESS

The Utility has access to a $10 million line of credit. The account accrues interest on withdrawals at prime minus 0.25% per annum. At December 31, 2014, the balance of the line of credit was $1,416,019 (2013 - $Nil).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2014		2013
Trade payables	$	13,292	$	10,857
Employee compensation		1,122		358
Other		538		1,088
	$	**14,952**	$	12,303

Included in Accounts Payable is an amount equal to $ Nil (2013 - $453,000) for deferred ERA revenues. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See Note 3 for further explanation.

11. CONSTRUCTION FINANCING

		2014		2013
Construction financing due December 31, 2015, bearing interest at 1.50% (2014 - 1.25% and due December 31, 2014) approved to a maximum of $25 million	$	14,880	$	20,385
Construction financing with an initial term ending September 30, 2015, bearing interest at 1.5%, approved to a maximum of $21.2 million		10,000		-
Construction financing with an initial term ending September 30, 2015, bearing interest at 1.5% approved to a maximum of $18 million		18,000		12,000
	$	**42,880**	$	32,385

Construction financing balances are monies advanced from the Parent to assist in the development of Utility infrastructure and generally are repayable within one year. Interest is payable annually at December 31 and at the maturity date.

Subsequent to year end, on January 23, 2015, the Utility received the remaining $11.2 million loan proceeds as part of the $21.2 million Construction Financing agreement with YDC.

(tabular amounts in thousands of dollars)

12. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Gross	Accumulated Amortization	2014 Net	2013 Net
Contributions from Canada	$ 71,000	$ 3,048	$ 67,952	$ 68,943
Capital assistance from Parent since 1998	73,545	6,694	66,851	68,068
Contributions from customers since 1998	24,001	7,586	16,415	16,996
Contributions from YG since 1998	10,879	1,426	9,453	9,651
Pre-1998 contributions	1,739	1,249	490	533
Deferred insurance proceeds	11,601	5,849	5,752	6,015
	$ 192,765	**$ 25,852**	**$ 166,913**	$ 170,206

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

13. FUTURE REMOVAL AND SITE RESTORATION COSTS

	2014	2013
Opening balance	$ 4,671	$ 4,711
Costs	-	(40)
Closing balance	**$ 4,671**	$ 4,671

14. DECOMMISSIONING FUND

This account represents monies paid in advance by an industrial customer to decommission the spur line that connects their operation to the YEC grid. Under a power purchase agreement, the customer has the financial responsibility for decommissioning expenses. 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).

15. REGULATORY HEARING RESERVE

	2014	2013
Opening balance	$ 106	$ -
Regulatory provision	550	550
Costs	(432)	(444)
Closing balance	**$ 224**	$ 106

The regulatory provision is included in amortization of deferred charges on the statement of operations, comprehensive income and retained earnings.

(tabular amounts in thousands of dollars)

16. DIESEL CONTINGENCY FUND

	2014	2013
Opening balance	$ 8,198	$ 4,628
Transfers (Note 3)	1,342	3,518
Interest	87	52
Ending balance	**$ 9,627**	$ 8,198

Subsequent to year end, the YUB approved amendment to the DCF which included a fund limit of $8 million. In accordance with rules established by the YUB, the Utility plans to implement a refund rider to return the excess funds to rate payers.

17. LONG-TERM DEBT

Debt Refinancing

The Utility entered into an agreement with YDC to renegotiate terms of all outstanding debt, excluding the $20,889,000 term note related to the Mayo Hydro Enhancement Project due December 31, 2051 and the $5,505,000 term note due December 31, 2039. The amount of the new restructing is $92,458,473. The term of the new loan is until December 31, 2019 with interest payable at 2.40%. Interest on the loan is payable on the last business day of each month. The Utility will pay $3,683,000 against the outstanding principal annually on December 31 starting on December 31, 2015. The Utility will repay the outstanding principal balance in full by December 31, 2019, unless alternative repayment is negotiated by the parties.

The Utility also entered into an agreement with YDC to roll-over $5,505,000 of construction financing into long-term debt (Note 11).

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

	2014	2013
Yukon Development Corporation		
$92,458,473 term note bearing interest at 2.40% repayable in annual installments of $3,683,000 principal, plus accrued interest with the balance of $77,726,473 due December 31, 2019	$ 92,459	$ -
$81,890,873 term note bearing interest at 4.25% repayable in annual installments of $3,000,000 principal, plus accrued interest with the balance of $69,890,873 due December 31, 2015	-	72,891
$17,095,000 term note bearing interest at 3.69% repayable in annual installments of $683,800 principal, plus accrued interest, due December 31, 2036	-	15,727
$21,900,000 flexible term note bearing interest at 5.46% repayable in annual installments of $336,923 principal, plus accrued interest with the balance of $8,423,078 due December 31, 2051	20,889	21,226
Carried forward to next page	113,348	109,844

(tabular amounts in thousands of dollars)

17. LONG-TERM DEBT - continued

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

	2014	2013
Carried forward from previous page	113,348	109,844
$5,505,000 term note bearing interest at 2.40% interest only payable annually, due December 31, 2039	5,505	-
Unsecured advance bearing interest at 3.97%, due one year after demand	-	2,053
Unsecured advance bearing interest at 4.27%, due one year after demand	-	5,471
TD Bank		
$12,400,000 term note bearing interest at 4.02% payable in monthly installments of $94,406 interest and principal, with the balance due September 30, 2016.The note is guaranteed by the Yukon Government. The terms of the note were renewed October 3, 2011	1,911	2,946
Banker's Acceptances,the Utility entered into an interest rate swap to convert the interest rate from variable interest rates to a fixed rate of 2.69% per annum. Principal drawdowns are monthly with the balance due on December 28, 2022	10,366	10,687
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	281	311
	131,411	131,312
Less current portion	5,456	5,406
	$ 125,955	$ 125,906

$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 negative 0.53% (2013 - positive 0.60%).

Long-term debt repayment

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

2015	5,456
2016	5,238
2017	4,405
2018	4,414
2019	78,448
Thereafter	33,450
	$ 131,411

(tabular amounts in thousands of dollars)

17. LONG-TERM DEBT - continued

Fair value
Fair value at December 31, 2014 of $134 million (2013 - $136 million) 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.

18. SALES OF POWER

	2014	2013
Wholesale	$ 28,770	$ 28,353
Industrial	4,095	4,484
General service	4,172	3,668
Residential	2,075	1,968
Secondary sales	410	275
Sentinel and street lights	102	94
	$ 39,624	$ 38,842

19. OPERATIONS AND MAINTENANCE EXPENSES

	2014	2013
Wages and benefits	$ 5,626	$ 5,302
Maintenance		
- lines and substations	1,345	1,656
- hydro, diesel and wind	1,596	1,306
- building and vehicle	1,102	1,135
Fuel and purchased power	227	360
Water level measurement	161	224
	$ 10,057	$ 9,983

20. ADMINISTRATION EXPENSES

	2014	2013
Wages and benefits	$ 5,549	$ 5,307
Insurance and taxes	1,348	1,321
General office	1,167	1,343
Information systems	736	700
Environmental	528	448
Training, recruitment and development	348	286
Board of Directors	255	150
Regulatory loss	120	458
Material management and contracting	62	70
Intercompany services	60	113
	$ 10,173	$ 10,196

(tabular amounts in thousands of dollars)

21. RELATED PARTY TRANSACTIONS

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

Revenue from related parties is included in other revenue on the statement of operations. Interim Electrical Rebate program revenues are received from YDC in accordance with terms established by YG which established the program to protect certain ratepayers by minimizing the impact of rate increases. These revenues are included in the sales of power on the statement of operations.

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

		2014		2013
Revenue				
Sales of service to YDC	$	65	$	117
Program cost reimbursement from YG		118		100
Rate subsidy received from YDC		269		272
Funding from YDC (Note 8)		-		1,249
Operating expenses				
Interest expense on borrowings from YDC	$	4,166	$	4,280
Other receipts				
Construction financing from YDC		16,000		13,480
Other payments				
Repayment of principal on borrowings from YDC	$	4,021	$	4,021

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

		2014		2013
YDC				
Accounts receivable	$	158	$	146
Accounts payable		-		130
Construction financing		42,880		32,385
Current portion of long-term debt		4,021		4,021
Long-term debt		114,832		113,347
YG				
Accounts receivable	$	649	$	402
Accounts payable		305		2

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

The Utility entered into an agreement with YDC to renegotiate terms of all outstanding debt, excluding the $20,889,000 term note related to the Mayo Hydro Enhancement Project due December 31, 2051 and the $5,505,000 term note due December 31, 2039, in the amount of $92,458,473 (Note 17). The Utility also entered into an agreement with YDC to roll over $5,505,000 of construction financing into long-term debt (Notes 11 and 17). On January 23, 2015, the Utility received the remaining $11.2 million loan proceeds as part of the $21.2 million Construction Financing agreement with YDC (Note 11).

(tabular amounts in thousands of dollars)

22. PENSION COSTS AND OBLIGATIONS

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2015. An actuarial valuation for funding purposes of the executive defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2017. The pension costs and obligations are based on the data used in these funding valuations and have been projected to December 31, 2014 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2014. The distribution of assets by major asset class is as follows:

	December 31, 2014	December 31, 2013
Equities	53.5%	53.1%
Fixed income securities	36.0%	36.1%
Real estate	10.5%	10.8%

Information about the Utility's defined benefit plans as at December 31, in aggregate, is as follows:

		2014		2013
Accrued benefit obligation determined by actuarial valuation	$	20,690	$	17,953
Fair value of plan assets		14,672		13,284
Funded status - plan deficit	$	6,018	$	4,669
Unrecognised amounts:				
- Transitional asset (liability)		(13)		(73)
- Net accumulated actuarial losses		(5,020)		(3,436)
Accrued benefit liability	$	985	$	1,160
Less current portion		35		-
	$	950	$	1,160
Pension costs	$	865	$	1,175
Employer contributions	$	1,040	$	1,061
Employee contributions	$	100	$	108
Benefits paid	$	775	$	536
Significant assumptions for employee defined benefit plan:				
Discount rate - accrued benefit obligation		4.00%		4.75%
Discount rate - pension costs		4.75%		4.50%
Expected long-term rate of return on plan assets		6.25%		6.25%
Assumed rate of salary escalation		3.00%		3.00%
Significant assumptions for executive pension plans:				
Discount rate - accrued benefit obligation		4.75%		4.75%
Discount rate - pension costs		4.75%		4.25%
Expected long-term rate of return on plan assets		5.50%		5.50%
Assumed rate of salary escalation		3.50%		3.50%

22. PENSION COSTS AND OBLIGATIONS - continued

The accrued benefit liability has been recorded by the Utility and is separately shown on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the employee defined benefit 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 plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2014, these were $378,000 (2013 - $353,000).

Total cash payments for employee future benefits for 2014, consisting of cash contributed by the Utility to its funded defined benefit pension plans and cash contributed directly to the RRSP, were $1,418,000 (2013 - $1,414,000).

23. COMMITMENTS

Aishihik water licence
The Yukon Territory Water Board issued a water use license 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 license 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, 2014 as the product or service had not been provided. The total commitments at year end are $10,420,000 (2013 - $6,730,000).

24. 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. The Utility has informed the contractor of claims for incomplete contract scope, uncorrected deficiencies and other claims. The outcome of the claim is not determinable at this time and no amount has been recognized in the financial statements.

Carmacks to Stewart Crossing Transmission Project
The Utility has been the subject of a legal claim for $3 million by the line construction contractor on the Carmacks to Stewart Crossing Transmission Line project which was completed in June 2011. Subsequent to year end, on March 11, 2015, the Utility entered into an agreement for $1.45 million to settle the Carmacks to Stewart Transmission Project Claim with the contractor. The settlement includes $1.1 million in contract holdbacks that the Utility has previously recorded as a project cost. The remaining balance will be added to Property Plant and Equipment.

25. 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, 2014 no new 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.

26. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2014, 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 17.

The Utility has access to a $10 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.25% per annum.

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

The Utility did not engage in any other hedging transactions.

Interest rate risk
Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Utility is 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 TD Bank whose variable rate has been converted to a fixed rate using an interest rate swap.

As at December 31, 2014, the Utility had an interest rate swap agreement in place with a notional principal amount of $10.4 million (2013 - $10.7 million). The agreement effectively changes the Utility's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%.

(tabular amounts in thousands of dollars)

26. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

The fair value of the interest rate swap agreement on December 31, 2014 was a liability of $213,000 (2013 - asset of $430,000). The decrease in the fair value in 2014 of $644,000 (2013 – increase of $585,000) is recorded on the Statement of Operations as an unrealized (gain)/loss. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of $665,000 (2013 - $744,000).

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 Utility's credit risk is minimal in that its primary customer is a regulated utility.

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'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.

Fair values
The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2014:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	$213	-	$213

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2013:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related asset	-	$430	-	$430

27. CAPITAL MANAGEMENT

The Utility's capital is its shareholder's equity which is comprised of share capital, contributed surplus and accumulated funds in the form of 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.

(tabular amounts in thousands of dollars)

27. CAPITAL MANAGEMENT - continued

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 balance sheet date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning the spur line that connects an industrial customer's operations to the YEC grid has been added (Note 14). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

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

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

	2014	2013
Long-term debt due within one year	$ 5,456	$ 5,406
Long-term debt	125,955	125,906
Total debt	131,411	131,312
Add provision for decommissioning of industrial customer spur line	2,586	2,553
Total debt to include in the calculation	$ 133,997	$ 133,865
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	43,109	35,437
Total shareholder's equity	96,709	89,037
Total capitalization	$ 230,706	$ 222,902
Total debt to total capitalization	58 %	60 %

Due to the expectation of increased capital requirements in 2015, the Utility decided not to declare a dividend in 2014 to increase the December 31, 2014 total debt to total capitalization ratio to 60%.

28. COMPARATIVE FIGURES

Certain 2013 figures have been reclassified to conform with the current year's presentation.

YUKON ENERGY TRANSMISSION AND GENERATION FACILITIES

GENERATING STATIONS

- YEC Diesel
- YEC Hydro
- YEC Wind
- ATCO Diesel
- ATCO Hydro
- Taku River Tlingit First Nation Hydro
- Minto Mine Diesel

TRANSMISSION AND DISTRIBUTION LINES

- 138 kV
- 66/69 kV
- 34 kV
- 25 kV
- 14.4 kV

YEC SYSTEM	(in MW)
Hydro Facilities	
Whitehorse	40.0
Aishihik	37.0
Mayo	15.1
Total	**92.1**
Wind Facilities	
Haeckel Hill	0.8
Diesel Facilities	
Whitehorse	23.0
Faro	8.5
Dawson	5.1
Mayo	2.5
Total	**39.1**
TOTAL YEC SYSTEM	**132.0**

ATCO SYSTEM	(in MW)
Hydro Facilities	
Fish Lake	1.3
Diesel Facilities	
Carmacks	1.5
Haines Junction	1.5
Teslin	1.5
Ross River	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	1.2
Stewart Crossing	0.1
Swift River	0.3
Total	**14.6**
TOTAL ATCO SYSTEM	**15.9**
Other Diesel	
Minto Mine	8.0
Total Yukon Capacity	**155.9**

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Cover: A Yukon Energy employee examines one of the Whitehorse hydro units.
Photo: GBP