YUKON ENERGY

2015 Annual Report

Environmental Benefits Statement

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Wood Use: 450 kg

Water: 1,850 L

Energy: 300 kWhr

Solid Waste: 25 kg

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Cover photo: www.archbould.com

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Yukon Energy's 2015 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, 2015.

Message from the president

I am pleased to present the 2015 Yukon Energy Annual Report. It has been another very busy year for the Corporation and I would like to thank our team of dedicated employees and our strong Board of Directors who worked extremely hard to ensure Yukoners have sustainable electricity now and in the years ahead.

Some key projects this year included:

» Completing and commissioning our Whitehorse natural gas generating facility;

» Completing the environmental baseline and assessment work, engineering design, and selection of powerline route for the Stewart to Keno City Transmission Line Project;

» Replacing the spillway gate control system at the Wareham dam;

» Starting an 18-month process to develop a 2016 Resource Plan;

» Achieving a very successful first full year of our electricity conservation program "inCharge" in partnership with ATCO Electric Yukon;

» Completing various transmission system improvements and upgrades; and

» Completing key steps toward implementing a Computerized Maintenance Management System.

You will find details in this report about each of these projects.

Another major accomplishment for the company in 2015 was our Certificate of Recognition (COR) audit. Yukon Energy became COR certified several years ago and external audits are done every three years to continue our certification. Since safety is our primary concern, we were happy to have received an overall score of 92 percent on the audit, with perfect scores in several areas. I would like to thank our staff for their ongoing diligence and commitment to safety.

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

Being the head of a vibrant and progressive company like Yukon Energy requires keeping many balls in the air at the same time. *Photo: Alistair Maitland Photography*

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 almost 133 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), 31 megawatts by diesel generators (which we currently only use as backup), nine megawatts by liquefied natural gas (another backup source of power for us) and less than one megawatt by a wind turbine located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under the Business Corporations Act and regulated by 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.

Whitehorse dam. *Photo: www.archbould.com*

Mandate

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

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

Values

» Honesty

» Integrity

» Respect

2015 strategic priorities and how they were met

1. Complete the Whitehorse Diesel to Natural Gas Conversion Project according to the November 2014 timetable and budget.

Project finished within budget, but because of design changes required by the permitting process, the timeline had to be extended by a few months. The LNG facility was brought on-line in June 2015.

2. Complete prefeasibility planning on the next mid-scale renewable energy project.

Feasibility study completed related to a potential pumped storage facility at Moon Lake, B.C. A second feasibility study was done exploring potential pumped storage at the Faro mine site.

3. Develop a prioritized five-year plan for large capital projects, excluding new supply projects.

Work continues on the development of a long-term sustaining capital plan. In 2015 we completed an analysis of our diesel fleet, identifying the forecast timing of future engine overhauls.

4. Submit YESAA application for Stewart Crossing to Keno City Transmission Project.

Application was submitted in November 2015.

5. Deliver a rate of return of 7.89 percent or greater.

Achieved a regulated rate of return on equity of 8.14%

6. Complete key steps toward implementing our Computerized Maintenance Management System.

This goal was achieved. Staff identified major assets and added them to the database. We aligned the management system with our budgeting software, providing on-demand reporting and budget updates. We also implemented a process to reduce the backlog of service calls.

7. Achieve an all injury frequency rate of no more than 1.0.

We had an all injury frequency rate in 2015 of 6.2, compared to 8.9 in 2014. This rate is based on a rather complex calculation that allows us to compare our safety statistics to other Canadian utilities. While we did not meet our injury rate of 1.0, our Transmission and Distribution employees (one of our groups most exposed to risk) had zero injuries again this year.

8. Have fewer than four company motor vehicle incidents.

We had five vehicle incidents this year, down slightly from 2014.

While we did not achieve our goal, the dollar value of vehicle damage for 2015 was down 50 percent from the previous year.

9. Have fewer than ten controllable system power outages.

In 2015 we had 16 controllable outages, up from 14 in 2014. Major maintenance work on our system required us to split our grid for approximately three weeks in the summer of 2015, leaving our northern system more vulnerable to power disruptions.

The good news is that for the third year in a row we did not have any grid-wide outages.

Fall colours at the Whitehorse dam. *Photo: www.archbould.com*

2016 strategic goals

Yukon Energy's goals for 2016 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; where possible goals were set that 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 2016 are to:

» achieve an all injury frequency rate of no more than 1.0;

» achieve a motor vehicle accident rate of no greater than four;

» have no more than ten controllable system power outages;

» deliver a Rate of Return of 8.25 percent;

» implement updated Capital Budgeting and Project Management processes;

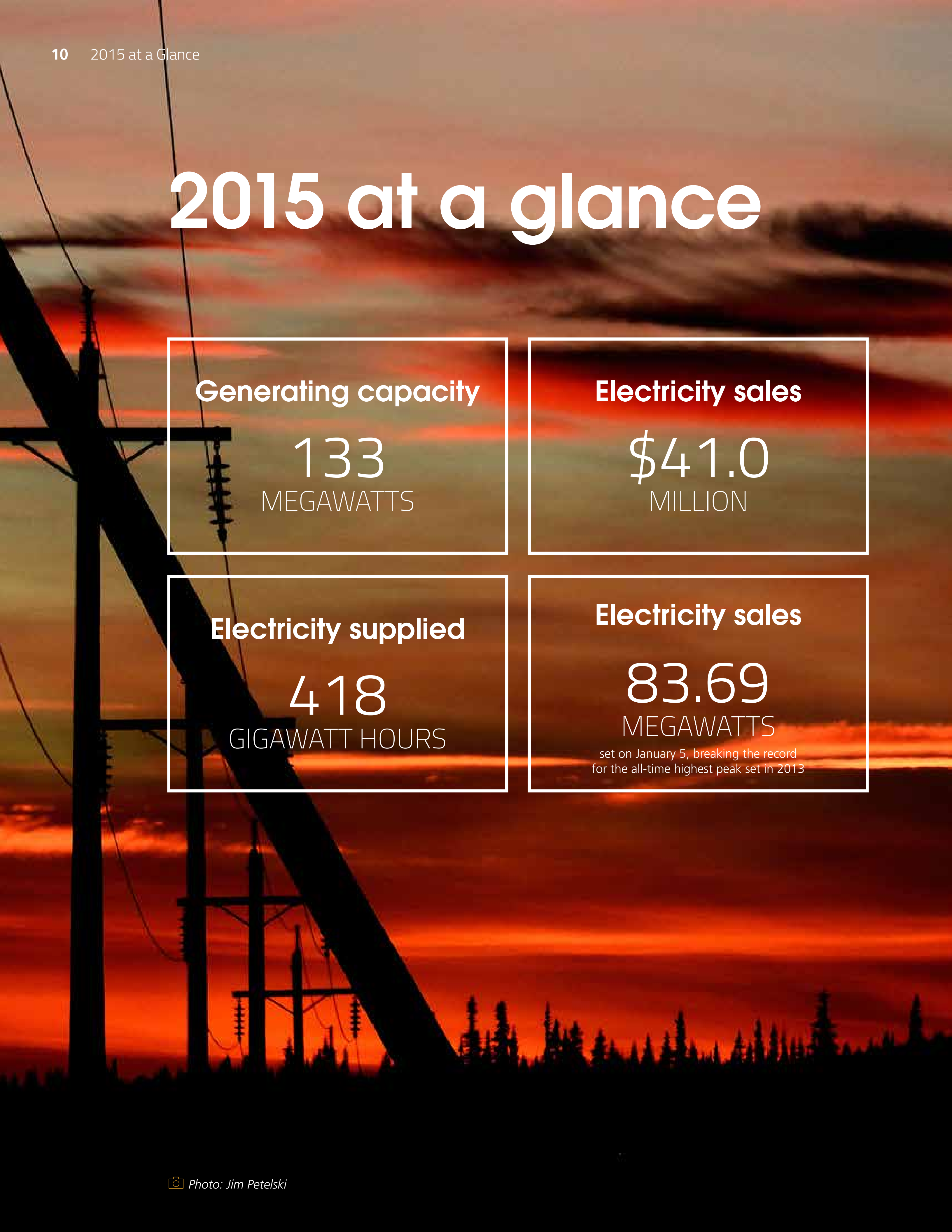
» complete Aishihik Elevator Project on budget;

» complete detailed engineering on the Stewart Crossing to Keno City Transmission Project on time and on budget;

» complete the 2016 Resource Plan and have it available for submission to the Yukon Utilities Board; and

» achieve Sustainable Electricity Company™ designation.

Achieving corporate goals takes a lot of hard effort and teamwork.
Photo: Alistair Maitland Photography



2015 at a glance

Generating capacity
133
MEGAWATTS

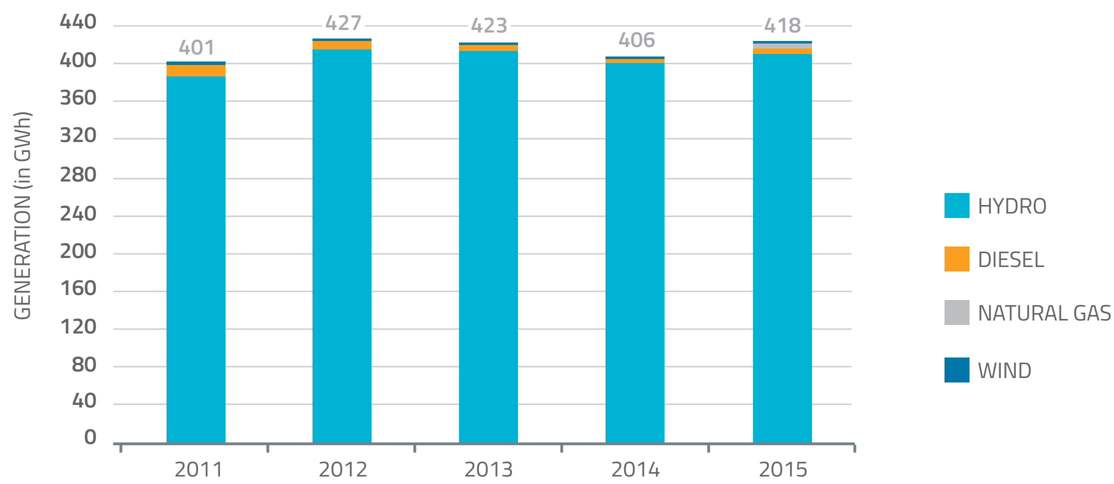
Electricity sales
$41.0
MILLION

Electricity supplied
418
GIGAWATT HOURS

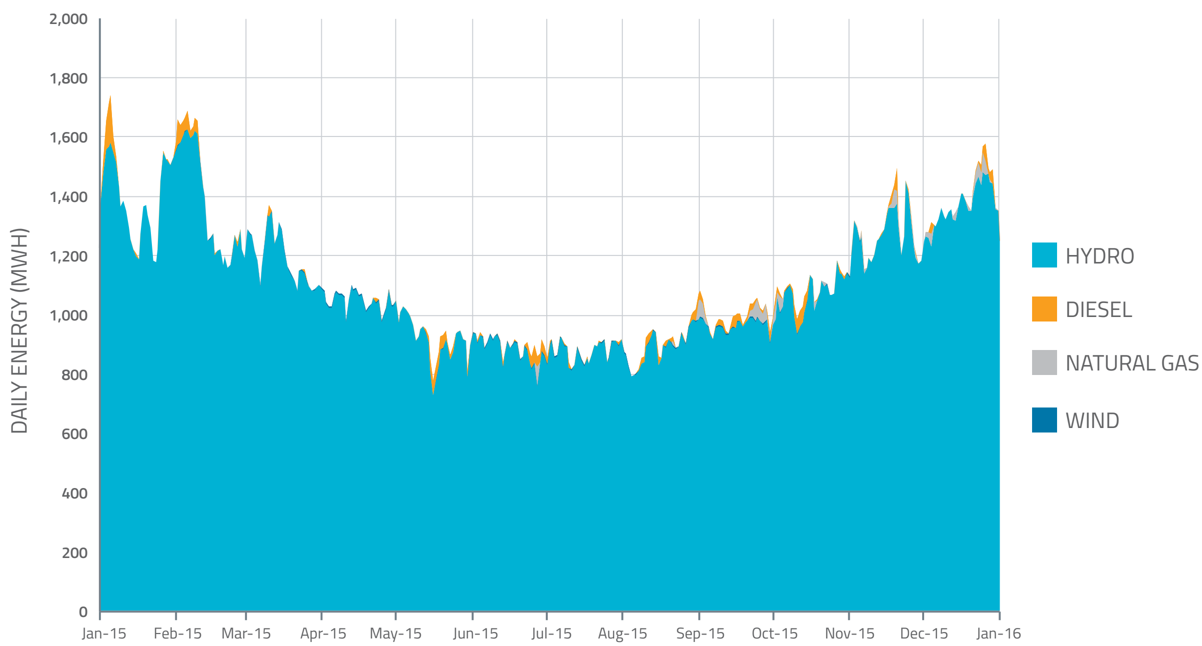
Electricity sales
83.69
MEGAWATTS
set on January 5, breaking the record
for the all-time highest peak set in 2013

Photo: Jim Petelski

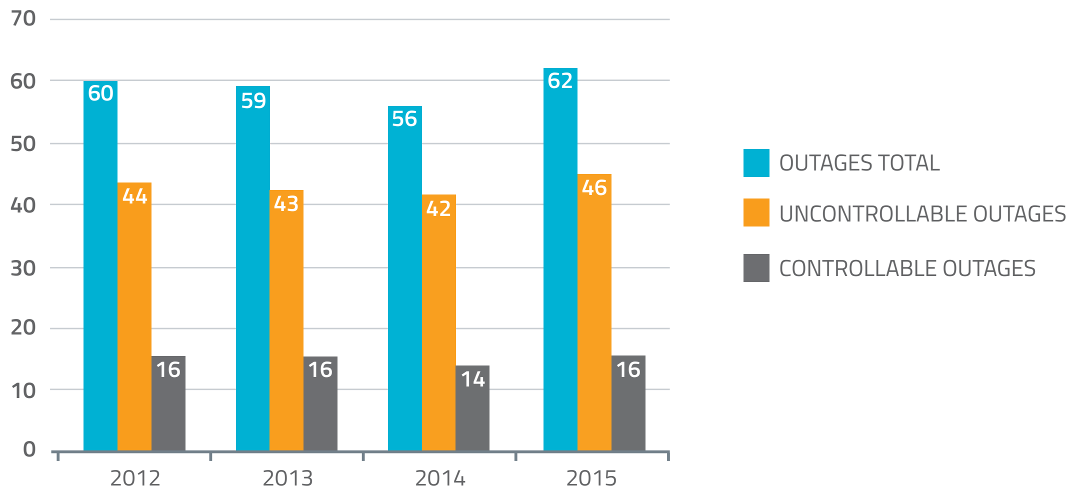
Electricity generation 2011–2015



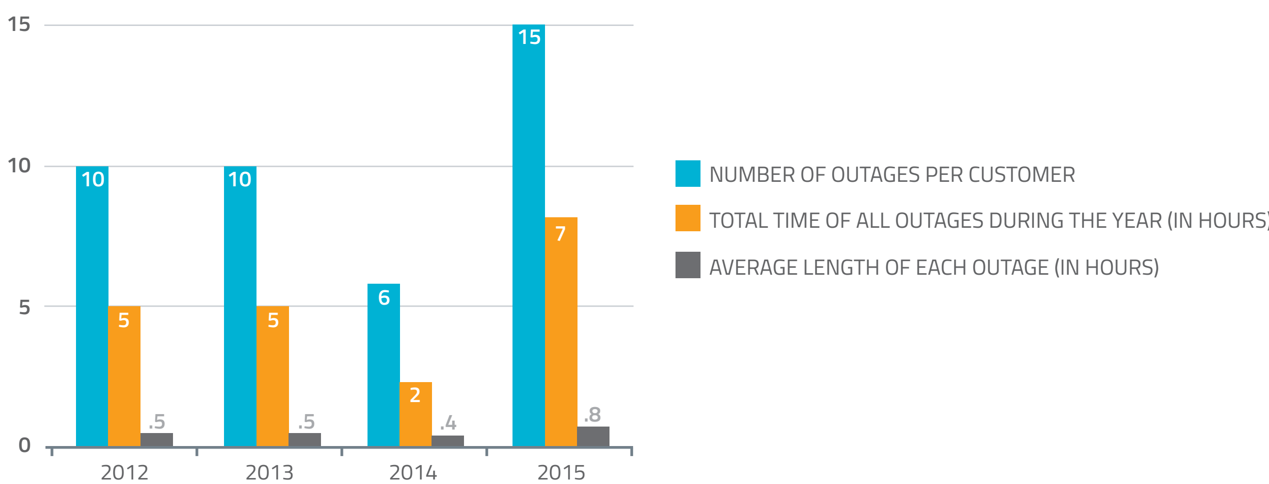
2015 generation by month



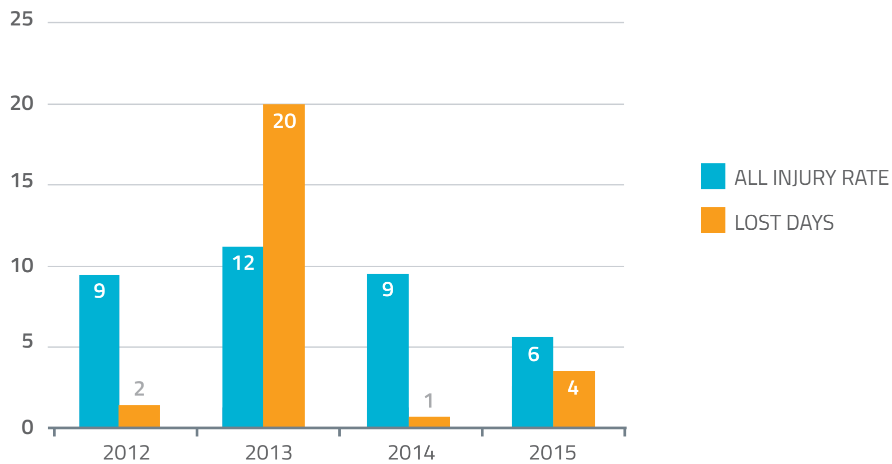
Total power outages 2012–2015



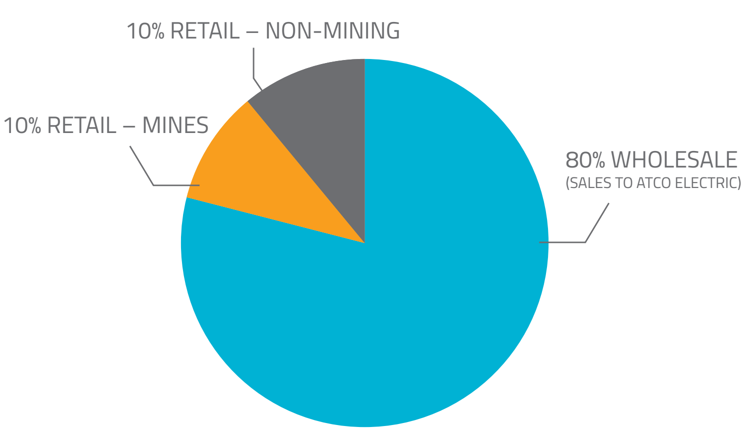
Outages per customer 2012–2015



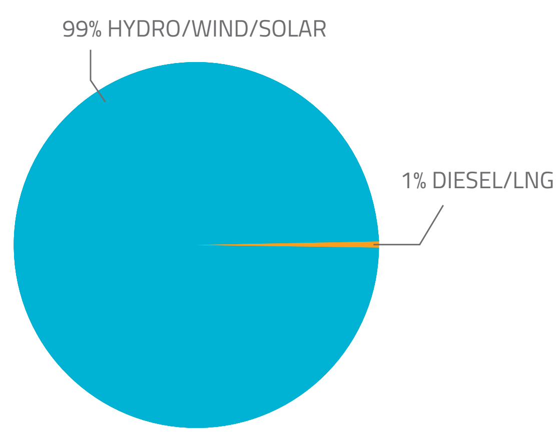
Injuries/lost days 2012–2015



Our customers



Generation



Our staff

Yukon Energy has almost 100 full and part time employees in Whitehorse, Mayo and Dawson City.

Employee Training

» More than 90 staff received almost 2,800 hours of training in 2015, including safety and technical courses.

» All supervisory staff, including the Senior Management team, participated in a comprehensive leadership program in 2015.

» Established a program of peer-to-peer learning to encourage employees to share the knowledge received during training and to use the expertise held by our employees.

Recruitment

» Yukon Energy's turnover rate continues to be low. Five positions were successfully filled in 2015.

» Launched a summer worker program to offer graduating high school students the opportunity to work through the summer at our facilities and gain exposure to the electrical utility industry.

Photo: Alistair Maitland Photography

In 2015, 11 of our employees received long service awards:

25 years:

» John Aldrich

» Bob Burrell

» Ron Gee

» Al Hammond

15 years:

» Nick Balderas

» Sulem Darani

10 years:

» Philippe Cashaback

» Myles O'Brien

5 years:

» Bevon Keefer

» Paul Leslie

» Willy McKenna

Major capital projects

Whitehorse diesel to natural gas project

- Installed and commissioned two natural gas units (total capacity 8.8 MW) and related infrastructure for backup in case of emergencies, winter peaking, and to provide support during drought years. The plant began operating in June.
- New units replaced two diesel generators that were at end of life and had to be retired.
- Provided tours of the new LNG facility to more than 100 Yukoners during an open house in July.

As of the end of 2015, LNG was about 18 percent less expensive than diesel. The LNG supply chain offers significant opportunities for further cost reductions as LNG supply options are developed closer to Whitehorse (Dawson Creek and Fort Nelson) and larger truck configurations are permitted for use.

A Yukon Energy employee provides a tour of the new LNG facility to local residents. *Photo: www.archbould.com*

Stewart Crossing to Keno City transmission project

- Planning project funded by the Yukon government ($5.3 million) for improvements to the transmission infrastructure between Stewart Crossing and Keno City.
- In 2015, completed all the environmental baseline and assessment work, engineering design, and selection of powerline route.
- Submitted a project proposal to the Yukon Environmental and Socio-economic Assessment Board in late November.
- Expect shovel-ready project by Spring 2017.

Melting permafrost has resulted in titling power poles along the existing transmission line between Mayo and Keno City. *Photo: Intergroup*

Wareham spillway hoist upgrade

» Replaced antiquated (1950s) spillway gate control system at the Wareham dam in Mayo.

» System now compliant with the latest safety standards and can be remotely operated from our System Control Centre in Whitehorse, allowing for quicker, more accurate and more reliable control of the gates.

Aishihik elevator

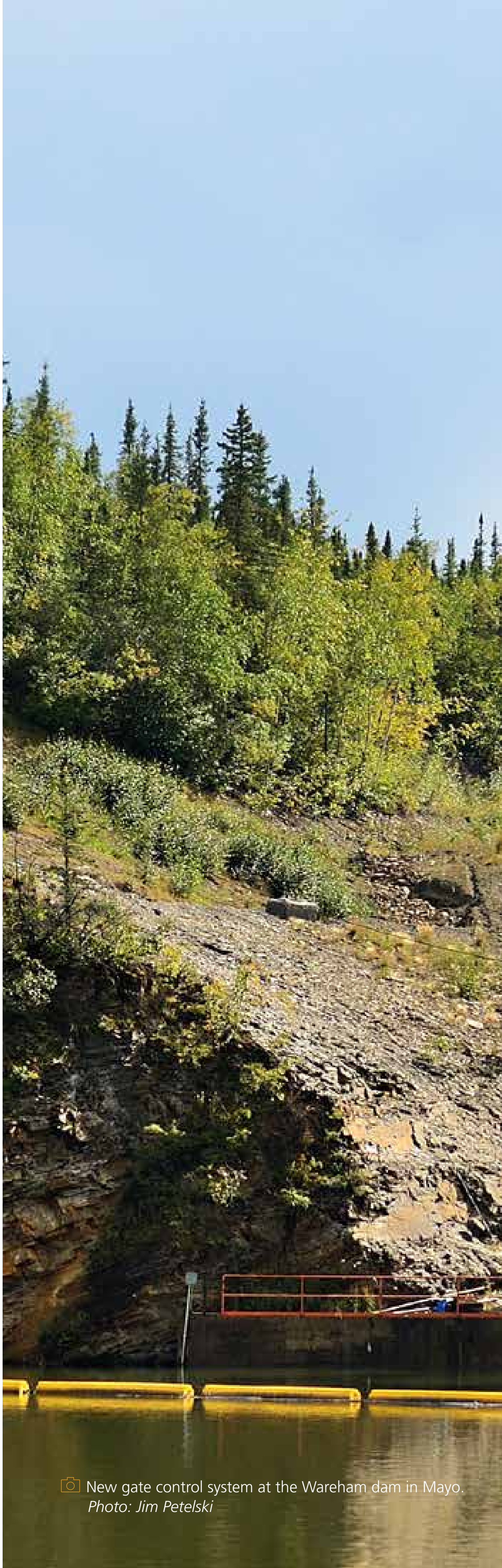
» Structural steel frames and associated rock anchors that support the Aishihik hydro plant's elevator, cables and ventilation ducts deemed end of life and need replacement.

» Two year project; expected to be completed by the end of 2016/early 2017.

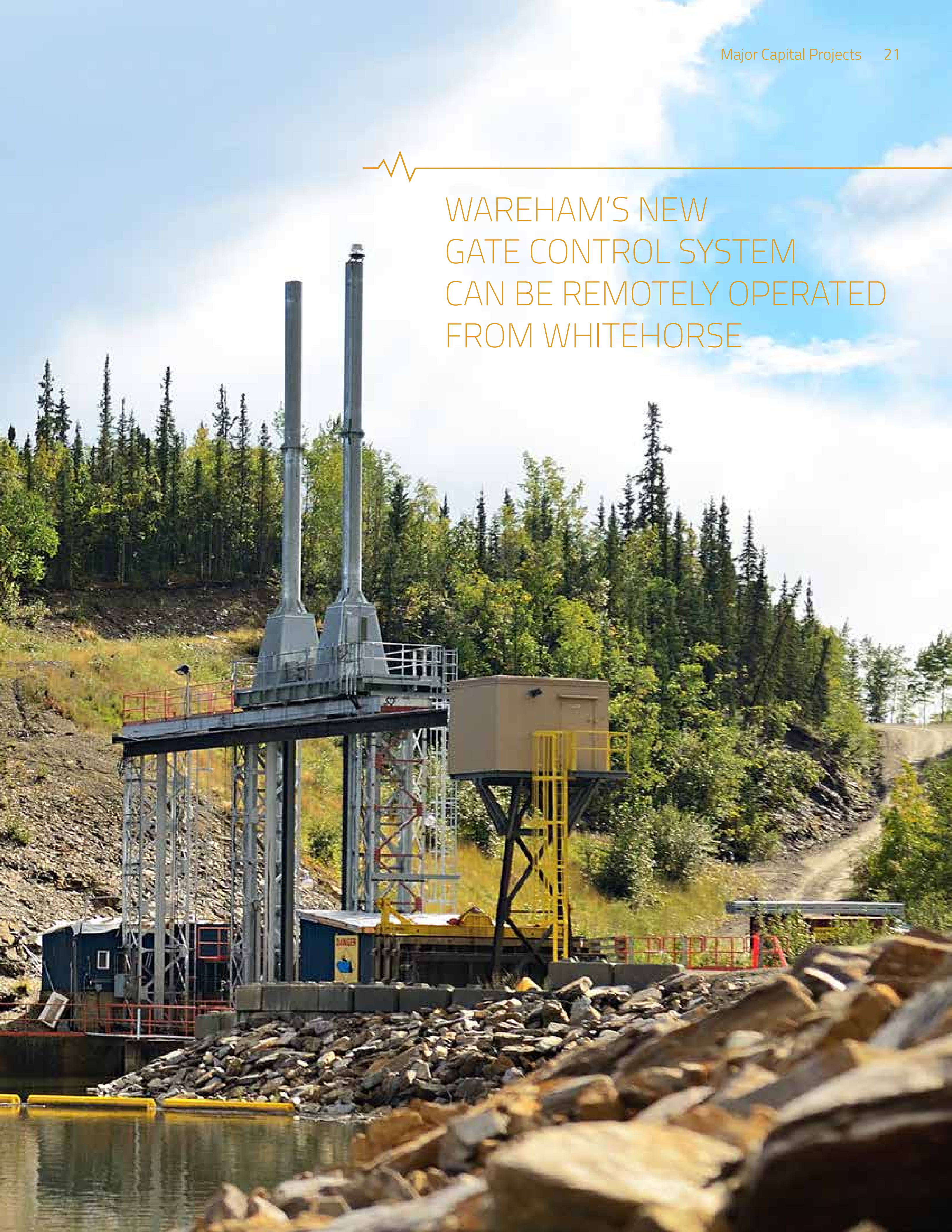
Other improvements

» Preventative maintenance performed on several hydro and diesel units.

» Various repairs/upgrades to our transmission system, including replacement of more than 50 structures.



New gate control system at the Wareham dam in Mayo.
Photo: Jim Petelski



WAREHAM'S NEW GATE CONTROL SYSTEM CAN BE REMOTELY OPERATED FROM WHITEHORSE

Meeting energy demand

2016 Resource Plan

» Began an 18-month process to develop a comprehensive plan to meet Yukon's electricity needs between 2016 and 2035 (known as the 2016 Resource Plan).

» Established a Technical Advisory Committee, made up of representatives of a broad range of interests including business, mining, government, First Nations, environmental and utilities. Committee will advise Yukon Energy on more technical matters related to the Resource Plan.

» Developed a new interactive public website, two brochures that were mailed to all Yukon households, and a series of eight information sheets that ran in local papers and were posted on the new website.

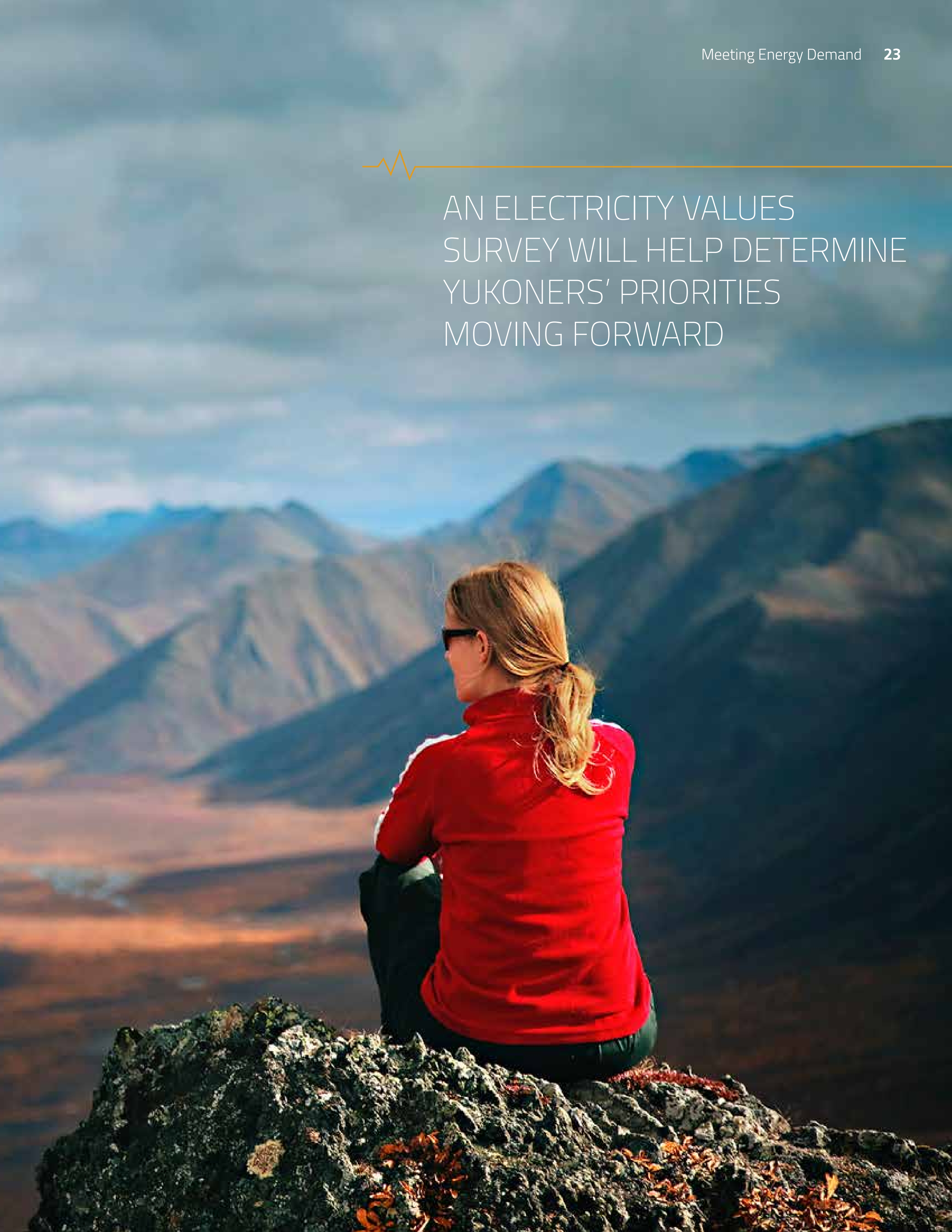
» Began engagement with Yukon First Nations on this initiative; planning began for first round of public/stakeholder meetings to be held in early 2016.

» Began work to develop an electricity values survey that will help us determine what is most important to Yukoners in terms of future electricity needs. The survey will be conducted in May/June 2016.

» Awarded contracts for development of project inventories and related cost estimates for various resource options.

» Completed various load forecast studies/research to help determine how much electricity may be needed over the next 20 years.

Woman looks over Dempster Highway. *Photo: Richard Legner*



AN ELECTRICITY VALUES SURVEY WILL HELP DETERMINE YUKONERS' PRIORITIES MOVING FORWARD

inCharge

- 2015 was the second year that the inCharge program was offered to Yukoners and the first full year of program delivery. The goal of the program, offered jointly by Yukon Energy and ATCO Electric Yukon, is to help Yukoners reduce their use of electricity. Program evaluation in July showed cost effectiveness and a high level of satisfaction among participants. We will conduct a second evaluation in 2016.
- Rebates on LED lights continued from the previous year; rebates on block heater timers introduced in January 2015.
- Provided almost 4,300 rebates for LED lights, more than 100 for block heater timers, and delivered approximately 500 energy saving kits.

LED light bulbs perform well in the cold and use approximately 80 percent less electricity than standard incandescent bulbs. *Photo: Alistair Maitland Photography*

PROVIDED ALMOST 4,300
REBATES FOR LED LIGHTS

Wind

- Yukon Energy is considering two locations for wind farms:

  1) Tehcho (formerly Ferry Hill) near Stewart Crossing in the Central Yukon, and;

  2) Mount Sumanik near Whitehorse.

- Data collection tower removed from Tehcho in November; at approximately the same time, data collection began at Mount Sumanik.
- Contract issued in late 2015 for the assessment of storage technologies to support the integration of wind resources into Yukon Energy's grid.

A helicopter lands at Haeckel Hill for maintenance on one of our existing wind turbines. *Photo: Jim Petelski*

YUKON ENERGY IS COLLECTING DATA AT

TWO POTENTIAL

WIND FARM LOCATIONS

Biogas

» In collaboration with the Cold Climate Innovation Centre and the City of Whitehorse, carried out a research project to learn if it is viable to turn food and yard waste at the Whitehorse landfill into renewable energy for electricity and heat, while maintaining good quality compost.

» Final report expected in early 2016.

» Early results indicate a small biogas project could assist the City of Whitehorse as it works towards its goal of zero waste by 2040. The project could accelerate the compost process, freeing up space at the city's composting facility which could save money down the road.

» Early results also show that using biogas to generate electricity is not economic for Yukon Energy without significant capital subsidy; there is not enough waste to get the economies of scale we need to make this affordable for our customers.

Solar

» Installed solar energy system on our main administration building in Whitehorse in September.

» System includes 40 panels of 250 watts each and has the capacity to produce up to 10 kilowatts of renewable energy (five percent of our load).

» Real-time tracking of the solar generation produced each hour made available to the public via Yukon Energy's website.

Solar energy panels on Yukon Energy's main administration building. *Photo: Yukon Energy*

SOLAR GENERATION IS TRACKED IN REAL TIME

Marsh Lake control structure. *Photo: Yukon Energy*

Southern Lakes enhanced storage concept

» Viable near-term option to increase renewable hydro generation and offset up to $2 million worth of LNG/diesel each year.

» Concept aims to increase winter energy potential by seeking a change to Yukon Energy's water license, allowing us to store extra water in Marsh, Tagish, and Bennett Lakes in the fall for use in the winter.

Focused engagement throughout the summer and fall of 2015 included:

» Two rounds of meetings with 40 property owners in six neighbourhoods who could potentially see erosion impacts as a result of the concept. Property owners selected their preferred mitigation options.

» Telephone conversations and face-to-face meetings with more than 150 residents potentially affected by groundwater issues. Seventy-one properties were physically surveyed to confirm infrastructure elevations and 12 properties were evaluated by an engineer for geotechnical/structural potential effects.

» Regular meetings with the Carcross/Tagish First Nation; together we developed a Memorandum of Understanding and work plan to support their investigation and understanding of the concept.

» Regular meetings with the Kwanlin Dün First Nation; we provided data and reports from studies done related to the concept. The First Nation is in the process of doing a technical review of the studies.

Pumped storage

» Completed feasibility study related to a pumped storage facility at Moon Lake, Northern B.C.

» Completed feasibility study to explore potential pumped storage facility at the Faro mine site.

Mayo Lake enhanced storage concept

» Potential project that would involve storing more water in Mayo Lake in the fall for use in the winter, displacing up to $1 million worth of thermal generated electricity annually.

» Project proposal submitted to the Yukon Environmental and Socio-Economic Assessment Board (YESAB) in August but was temporarily withdrawn to prepare additional information required by YESAB.

» Anticipate re-entering the assessment process in 2016.

Electric vehicle study

» Commissioned a study to:

- provide insight into the current status/costs of electric vehicle (EV) technology for cold weather;
- indicate the opportunities/barriers to adopting EVs in Yukon; and
- determine potential load growth/impact of EV adoption in the territory.

» A final report is expected to be completed in the first quarter of 2016.

Home heating fuel switching

» Undertook study to learn the potential for fuel switching from furnace oil/propane to electric heat in existing homes.

» Report expected to be completed by mid-2016.

Health and safety

Workplace safety

» Finished construction at our Whitehorse facility of an alternate emergency access for fire and ambulance first responders.

» Scored 92 percent on an external audit done to maintain our Certificate of Recognition (COR). Yukon Energy became COR certified in 2009; external audits are done every three years to continue our certification.

» Created and implemented a fatigue management program designed to mitigate fatigue related health and safety risks.

Yukon Energy received high scores in all categories during our COR audit, and had perfect scores in several areas including Safe Work Practices and Safe Job Procedures. The auditor said this was the first time he had ever awarded any company 100 percent in both those categories.

Two Yukon Energy employees working on our transmission system. *Photo: Jim Petelski.*

LNG

» Filed LNG Emergency Procedures Manual and Site Security Plan with the Yukon Oil and Gas Branch and both were approved.

» Yukon Energy and City of Whitehorse first responders participated in training initiatives, site safety and security programs.

» Our Health and Safety Department provided safety orientations to the public who were invited to tour the new LNG site.

» Yukon Energy employees and members of the Fire Department and RCMP completed an LNG plant safety training course.

Public safety

» Provided safety orientations for more than 325 contractors and consultants who did work for Yukon Energy.

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

» Completed an extensive dam safety review of our dams at all three of our generating facilities.

Wellness program

» Sixty-five percent of Yukon Energy's workforce took advantage of a corporate wellness subsidy that promotes a healthy lifestyle through physical activity. That's up from 59 percent in 2014.

Touring the LNG facility. *Photo: www.archbould.com*

Protecting our environment

Migratory birds

- Sponsored special family event at the McIntyre Marsh Bird Banding Station in Whitehorse. The station was operated by volunteers with Yukon Energy and the Society of Yukon Bird Observatories and included a bird species treasure hunt and other children's activities.
- Major sponsor again this year of the territory's premier bird festival "Celebration of Swans"; operated a live-streaming web cam that captured the activities of swans resting and feeding at Tagish Lake.

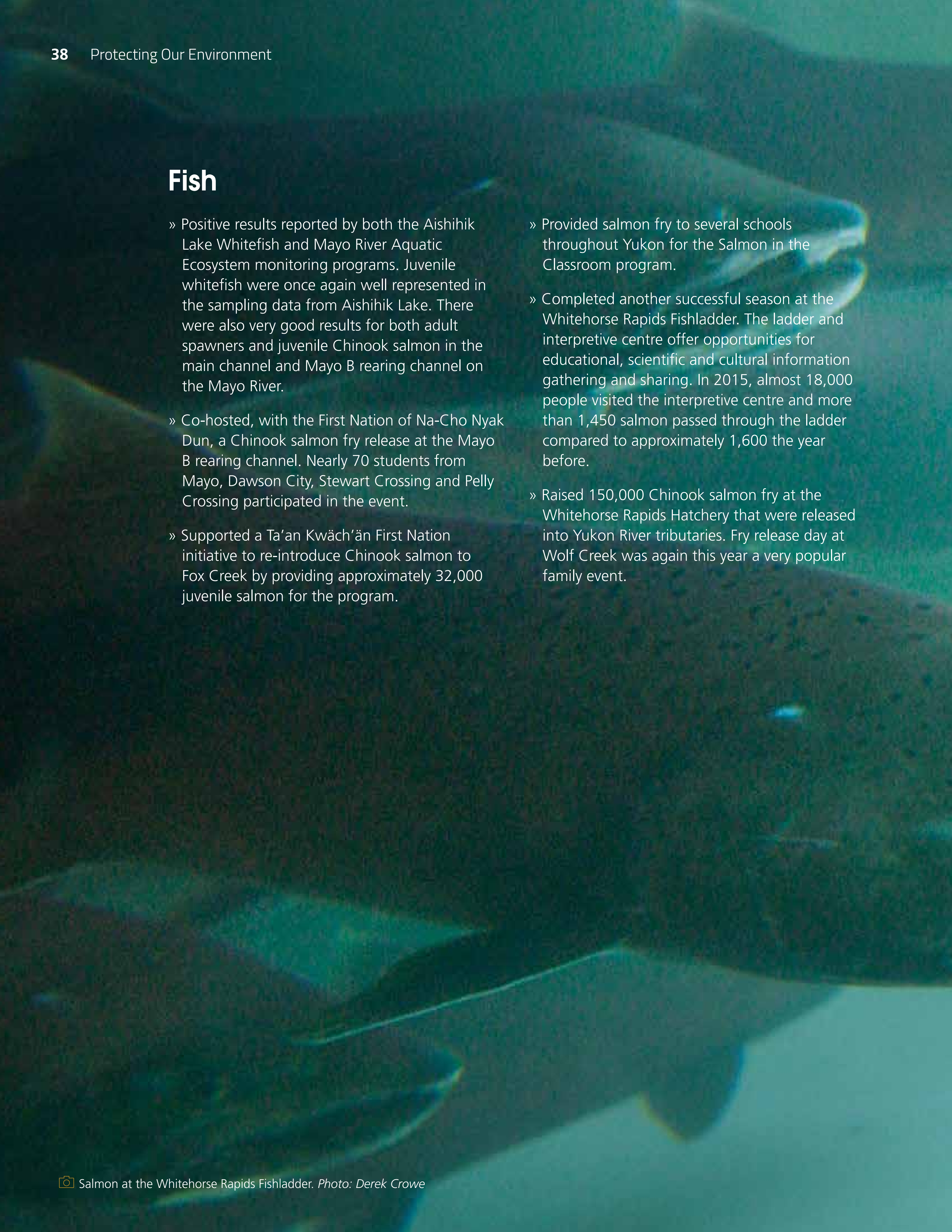
Yukon Energy is a member of the Canadian Electricity Association (CEA) and as such we actively participate in the CEA's flagship Sustainable Electricity Program. We are also involved in several other CEA working groups, including those focused on climate change adaptation, migratory birds, species at risk, environmental stewardship, and water resources.

A LIVE-STREAMING WEB CAM CAPTURED THE SWANS RESTING AND FEEDING

Swans rest and feed at Marsh Lake before heading north to nest and raise their young. *Photo: Jim Petelski*

Fish

- Positive results reported by both the Aishihik Lake Whitefish and Mayo River Aquatic Ecosystem monitoring programs. Juvenile whitefish were once again well represented in the sampling data from Aishihik Lake. There were also very good results for both adult spawners and juvenile Chinook salmon in the main channel and Mayo B rearing channel on the Mayo River.
- Co-hosted, with the First Nation of Na-Cho Nyak Dun, a Chinook salmon fry release at the Mayo B rearing channel. Nearly 70 students from Mayo, Dawson City, Stewart Crossing and Pelly Crossing participated in the event.
- 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.
- Provided salmon fry to several schools throughout Yukon for the Salmon in the Classroom program.
- Completed 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 2015, almost 18,000 people visited the interpretive centre and more than 1,450 salmon passed through the ladder compared to approximately 1,600 the year before.
- Raised 150,000 Chinook salmon fry at the Whitehorse Rapids Hatchery that were released into Yukon River tributaries. Fry release day at Wolf Creek was again this year a very popular family event.



Salmon at the Whitehorse Rapids Fishladder. *Photo: Derek Crowe*

MORE THAN 1,450 SALMON TRAVELLED THROUGH THE WHITEHORSE RAPIDS FISHWAY IN 2015

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.
- » Preliminary results show that glaciers contribute up to 23 percent of the total annual flow volume of the upper Yukon River. Snowfall makes up 44 percent and rain contributes the remaining 33 percent.
- » Research also indicated that as the glaciers retreat, they will continue to provide water to the Whitehorse generating facilities for decades and probably even centuries.
- » Similar climate change research to start in 2016 in the Aishihik and Mayo basins (pending federal funding that will be matched by Yukon Energy). The work will be completed through Yukon College and Institut National de la Recherche Scientifique (INRS) from Quebec.

Yukon Energy staff serve refreshments to commuters during Bike to Work Week. *Photo: Yukon Energy*

Environmental stewardship

» Through our Green Team, launched an awareness campaign aimed at improving fleet vehicle fuel efficiency and reducing pollution from unnecessary idling.

» Also through the Green Team, worked with our Information Technology department to set defaults on company printers to double-sided printing, and to implement a procurement protocol that ensures our printer paper meets contemporary best practices for maximum recycled content and sustainable forestry practices.

» 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 Town of Faro for turning a parking lot into an open air marketplace where residents can sell locally grown food and other products. This project not only promotes economic development, but it helps address food security.

» Promoted Earth Hour and monitored electricity usage during the March event. Collectively Yukoners reduced their power consumption during that hour by about 1.6 megawatts (about three percent); the best showing since Yukon Energy started tracking Earth Hour several years ago.

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

» Teamed up with the City of Whitehorse to encourage local residents to bike to work or school throughout the month of May.

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.

In 2015, Yukon Energy:

» Held face-to-face meetings and telephone conversations with nearly 200 stakeholders in the Marsh Lake/Tagish area regarding the Southern Lakes Enhanced Storage Concept; mailed a series of five information pamphlets to all Southern Lakes residents and posted them on our website and social media sites.

» Created new interactive website for our 2016 Resource Plan that included several electricity literacy videos; mailed two information pamphlets to all Yukon households.

» Held two rounds of public information meetings with residents of Mayo and Keno City, and one public meeting in Whitehorse, regarding the Stewart Crossing to Keno City Transmission Line Project; mailed two information pamphlets to all households in Mayo, Keno, and Stewart Crossing and posted them on our website and social media sites.

» Created an interactive website for a Yukon Energy-sponsored initiative called Bike to Work Week that encouraged commuters to ride their bikes and allowed participants to log their hours.

» As part of a fall re-launch of inCharge, mailed an information card to all Yukon households.

» Created a Yukon Energy LinkedIn page.

Photo: Alistair Maitland Photography.

HELD MEETINGS AND CONVERSATIONS WITH

HUNDREDS

OF YUKONERS

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 2015, Yukon Energy:

» With our parent Yukon Development Corporation, finalized a Partnership Agreement and Investment Options Agreement with the Kwanlin Dün First Nation on the Whitehorse Diesel to Natural Gas Conversion Project with term sheets outlining project support, benefits, business opportunities and investment opportunities.

» Signed a benefits agreement with the Ta'an Kwäch'än Council regarding the Whitehorse Diesel to Natural Gas Conversion Project, meeting our obligation under the Yukon Oil and Gas Act.

» Worked with the First Nation of Na-cho Nyak Dun, Champagne and Aishihik First Nations, Kwanlin Dün First Nation and the Carcross-Tagish First Nations on various potential energy projects in their traditional territories.

» Established regular meetings with the Council of Yukon First Nation Grand Chief.

» Continued support for the Taku River Tlingit to assist them with a feasibility study on increasing power generation from the Surprise Lake hydro facility in Atlin and the construction of a transmission line connecting Atlin to Whitehorse.

Members of the Kwanlin Dün First Nation tour the Whitehorse LNG facility.
Photo: www.archbould.com

WITH YDC, FINALIZED PARTNERSHIP AND INVESTMENT AGREEMENTS WITH THE KWANLIN DÜN FIRST NATION

Local support

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 2015, Yukon Energy donated $75,000 to approximately 40 community groups, including:

- Annual Crane & Sheep Festival
- Available Light Film Festival
- Contagious Mountain Bike Club
- Dawson City International Short Film Festival
- Food Bank Society of Whitehorse
- Friends of Mt. Sima Society
- Humane Society Yukon
- MacBride Museum of Yukon History
- Society of Yukon Bird Observatories
- Yukon Women in Trades & Technology
- Yukon Sourdough Rendezvous Superstar Contest
- Yukon Special Olympics

» Awarded six scholarships for pre-apprenticeship and post-secondary programs.

» Volunteered staff time for various community causes and events, including the Whitehorse Food Bank, Mae Bachur Animal Shelter, the Annual United Way Breakfast, the Young Women Exploring Trades Conference, and the Yukon River Trail Marathon.

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

Yukon Energy staff sort goods at the Whitehorse Food Bank.
Photo: Yukon Energy

Board of directors and corporate governance

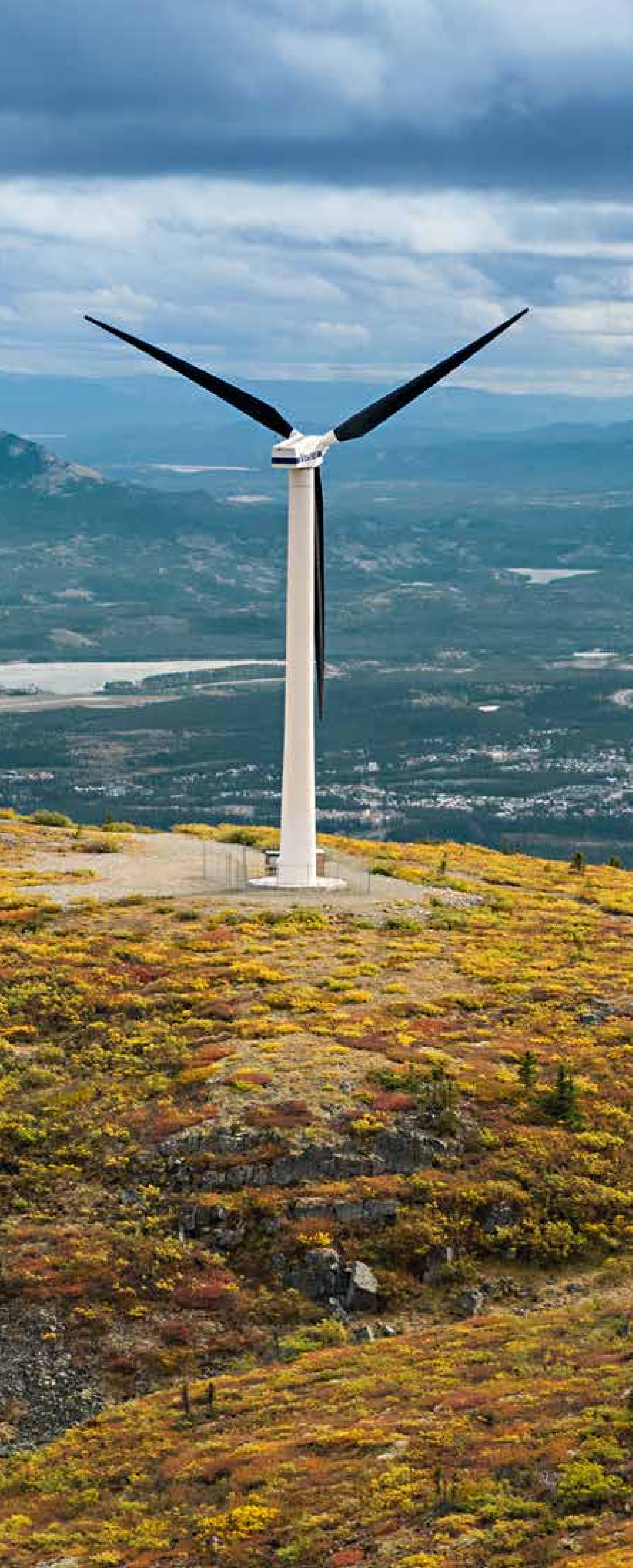
The Board of Directors at Yukon Energy oversees the conduct of business, establishes the strategic direction, and supervises Management, which is in turn responsible for the day-to-day operations at Yukon Energy.

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.

Wind turbine on Haeckel Hill. *Photo: www.archbould.com*



As of December 31, 2015, our Board of Directors includes:

- » Kells Boland (Chair)
- » Cam Malloch
- » Clint McCuaig
- » Curtis Shaw
- » Erin Stehelin
- » Georgina Leslie
- » Glenn Hart
- » Joanne Fairlie
- » Sue Craig
- » Wendy Shanks

Management discussion and analysis

This Management's 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.

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

Core business and strategy

- 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. 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 has been stagnant since mid-2014. 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. For 2016, the Yukon Department of Economic Development projects a population growth of 1.0 percent. GDP is forecast to grow by 3.5 percent fueled partly by increases in mineral production.
- We do not expect a shortage of water in 2016.

Capability to deliver results

- In order to deliver on our strategy and achieve planned results, Yukon Energy needs 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.
- The transition period of significant changes in leadership has been completed resulting in substantial changes in direction and focus.
- We continue to develop human resources policies to adapt to our seasoned work force.
- We monitor and forecast our cash and financial strength on an on-going basis. This includes current and future year projections. In 2015, we renegotiated long-term debt resulting in an extension of repayment terms as well as a more favourable interest rate. We expect to require cash to finance our capital additions in 2016 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. Borrowings external to the government entity require the approval of the Yukon government.
- Some of our key relationships include Yukon government, Yukon Development Corporation, First Nations and our primary banker, TD Bank.

Results and outlook

- » Net income for the 2015 fiscal year was $7.7 million, $0.05 million above the prior year. We have increased our 2016 target net income to $9.3 million resulting mainly from a small increase in sales, as well as more significant reductions in amortization (arising primarily from a shareholder capital contribution) and fuel expenses.
- » Revenue from the sales of power was $41.0 million, $0.1 million lower than the prior year primarily due to decreased Wholesales. We expect a slight increase in revenue in 2016 due to a small increase in Wholesales and an increased focus on secondary sales.
- » Hydro generation at 98.7 percent of total generation was slightly lower than the 99.6 percent in the prior year. In 2016, we forecast hydro generation at 99.5 percent of total generation.
- » The regulated rate of return on equity in 2015 is 8.14 percent, down from 8.38 percent in the prior year. The forecast return for 2016 is 8.25 percent, equal to the rate approved by the Yukon Utilities Board.
- » Capital expenditures for the year were $28.5 million, down from $39.4 million in the prior year. Our 2016 capital budget has decreased to $21.7 million.

Dawson City under a full moon. *Photo*: *www.archbould.com*

Risk management

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. Yukon Energy manages a variety of risks in providing service to our customers.

» An enterprise risk management framework across the entire Corporation provides the basis for consistently applying risk management practices.

» To manage employee, contractor and public safety, we have developed and implemented health and safety programs that meet or exceed established standards for the industry.

» Yukon Energy manages system reliability risks through long-term planning, asset maintenance and replacement programs and emergency response programs.

» We continually monitor and maintain our dams to ensure they operate reliably. We manage related risks through a comprehensive dam safety management system that involves dam safety professionals.

» Yukon Energy manages environmental regulation risks 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 Yukon Environmental Socio-economic Assessment Board, as well as permits from relevant regulators.

» Yukon Energy devotes considerable resources to working with local First Nations to ensure we understand and can proactively respond to their priorities.

» We face 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. Yukon Energy mitigates many financial risks associated with non-controllable costs and large, non-recurring costs 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 since 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.

Key performance drivers

There are several performance drivers and key performance indicators that are critical to the successful implementation of our strategy and achievement of our goals, including:

» Return on Equity (ROE): In the process of regulating and setting rates for Yukon Energy, the Yukon Utilities Board must ensure that the rates are sufficient to allow us to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve a reasonable annual ROE.

» Our people: 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.

» Reliability of service: 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.

Financial statements

December 31, 2015

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 International Financial Reporting Standards 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 18, 2016

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 statements of financial position as at 31 December 2015, 31 December 2014 and 1 January 2014, and the statements of operations and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 December 2015 and 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits 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 in my audits 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 2015, 31 December 2014 and 1 January 2014, and its financial performance and its cash flows for the years ended 31 December 2015 and 31 December 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the Yukon Energy Corporation that have come to my notice during my audits 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.

Guy LeGras, CPA, CA
Principal
for the Auditor General of Canada

18 May 2016
Edmonton, Canada

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

As at	December 31 2015	December 31 2014	January 1 2014
Assets			
Current			
Cash (Note 4)	$ 1,672	$ 160	$ 8,315
Accounts receivable (Note 5)	6,347	7,062	8,409
Inventories (Note 6)	3,614	3,065	3,222
Derivative related asset (Note 24)	-	-	430
Prepaid expenses	828	719	672
	12,461	11,006	21,048
Non-current			
Property, plant and equipment (Note 7)	443,194	431,286	403,014
Intangible assets (Note 8)	6,992	7,248	7,683
Total assets	**462,647**	449,540	431,745
Regulatory deferral account debit balances (Note 9)	21,241	22,927	20,186
Total assets and regulatory deferral account debit balances	**$ 483,888**	$ 472,467	$ 451,931
Liabilities			
Current			
Bank indebtedness (Note 10)	$ -	$ 1,331	$ -
Accounts payable and accrued liabilities (Note 11)	7,310	14,917	12,303
Construction financing (Note 12)	23,280	42,880	20,385
Derivative related liability (Note 24)	553	213	-
Current portion of long-term debt (Note 13)	6,066	72,347	5,406
	37,209	131,688	38,094
Non-current			
Long-term construction financing (Note 12)	-	-	12,000
Post-employment benefits (Note 14)	5,436	6,018	4,668
Contributions in aid of construction (Note 15)	176,540	161,160	164,191
Decommissioning fund (Note 16)	2,612	2,586	2,553
Long-term debt (Note 13)	140,874	59,064	125,906
Total liabilities	**362,671**	360,516	347,412
Equity			
Share capital			
Authorized: Unlimited number of a single class of shares with no par value			
Issued and fully paid: 3,900 shares	39,000	39,000	39,000
Contributed surplus	14,600	14,600	14,600
Retained earnings	46,303	38,076	31,929
Total equity	**99,903**	91,676	85,529
Total liabilities and equity	**462,574**	452,192	432,941
Regulatory deferral account credit balances (Note 9)	21,314	20,275	18,990
Total liabilities, equity and regulatory deferral account credit balances	**$ 483,888**	$ 472,467	$ 451,931

Commitments and contingencies (Notes 21, 22, and 23)

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

Approved by the Board

_______________, Chair _______________, Director

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

For the year ended December 31		2015		2014
Revenues				
Sales of power (Note 17)	$	40,948	$	41,053
Funding from parent (Note 20)		6,135		-
Other		383		472
		47,466	$	41,525
Operating expenses				
Operations and maintenance (Note 18)		17,376		15,186
Administration (Note 19)		9,891		10,173
Depreciation and amortization (Notes 7 and 8)		10,438		9,571
		37,705		34,930
Income from operations		**9,761**		6,595
Other income				
Allowance for funds used during construction		714		1,188
Amortization of contributions in aid of construction (Note 15)		3,624		3,613
Interest income		-		113
		4,338		4,914
Other expenses				
Interest on borrowings		3,319		4,662
Unrealized loss (gain) on interest rate swap (Note 24)		340		644
		3,659		5,306
Net income for the year before net movements in regulatory deferral account balances		**10,440**		6,203
Net movement in regulatory deferral account balances related to net income (Note 9 (d))		(2,725)		**1,456**
Net income for the year and net movements in regulatory deferral account balances		**7,715**		**7,659**
Other Comprehensive Income (Note 3 (p))				
Remeasurement of defined benefit pension plans (Note 14)		512		(1,512)
Total comprehensive income for the year	**$**	**8,227**	$	6,147

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

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

	Share Capital Number of shares	Share Capital $	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2014	**3,900**	**$ 39,000**	**$ 14,600**	**$ 31,929**	**-**	**85,529**
Net income for the year and net movement in regulatory deferral account balances	-	-	-	7,659	-	7,659
Other comprehensive income	-	-	-	-	(1,512)	(1,512)
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	-	-	(1,512)	1,512	-
Balance at December 31, 2014	**3,900**	**39,000**	**14,600**	**38,076**	**-**	**91,676**
Net income for the year and net movement in regulatory deferral account balances	-	-	-	7,715	-	7,715
Other comprehensive income	-	-	-	-	512	512
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	-	-	512	(512)	-
Balance at December 31, 2015	**3,900**	**$ 39,000**	**$ 14,600**	**$ 46,303**	**-**	**$ 99,903**

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

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

For the year ended December 31	2015	2014
Operating activities		
Cash receipts from customers	$ 42,072	$ 42,406
Cash receipts from parent	2,000	-
Cash receipts from contributions in aid of construction	739	600
Cash paid to suppliers	(16,906)	(12,150)
Cash paid to employees	(11,341)	(10,621)
Interest paid	(3,319)	(4,663)
Interest received	-	113
Cash provided by operating activities	**13,245**	15,685
Financing activities		
Receipt of construction financing	11,200	16,000
Repayment of construction financing	(8,400)	-
Issuance of long-term debt	20,984	-
Repayment of long-term debt	(5,455)	(5,406)
Cash provided by financing activities	**18,329**	10,594
Investing activities		
Additions to property, plant and equipment	(28,024)	(35,222)
Additions to intangible assets	(707)	(543)
Cash used in investment activities	**(28,731)**	(35,765)
Net increase (decrease) in cash	2,843	(9,486)
Cash, beginning of year	**(1,171)**	8,315
Cash, end of year	**$ 1,672**	$ (1,171)

Cash includes:		
Cash	$ 1,672	$ 160
Bank indebtedness	-	(1,331)
Total	$ 1,672	$ (1,171)

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

Yukon Energy Corporation

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

December 31 2015

1. NATURE OF OPERATIONS

a) General

Yukon Energy Corporation ("the Utility") is incorporated under the Yukon *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation ("YDC" or "the Parent"), a corporation owned by the Yukon Government ("YG" or "the Government"). The Utility 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 consolidated by the Government and as such are considered to be related parties for accounting purposes. Management believes these boards operate independently from the Utility from a rate setting and operating perspective.

b) Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. 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 YG through Orders-In-Council ("OIC") that specify how the interests of the customer and Utility are to be balanced.

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

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the depreciation of all capital equipment; and
- the return on rate base (the borrowing costs related to borrowing that portion of 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 property, plant and equipment depreciation rates, which are periodically updated by the Utility through depreciation studies.

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

Yukon Energy Corporation

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

December 31 2015

1. NATURE OF OPERATIONS - continued

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

d) Capital structure
The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity (Note 25). Dividends are normally declared annually to the Parent and are typically loaned back in order to maintain this ratio during normal on-going operations. When large assets are purchased or constructed, the Parent may be required to make an equity or capital contribution.

2. BASIS OF PRESENTATION

a) Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Utility's first financial statements prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Utility is provided in Note 26. This note includes reconciliations of equity and total comprehensive income for the comparative period and of equity at the date of transition (January 1, 2014) reported under Part V of the CPA Handbook ("previous GAAP") to those reported under IFRS.

These financial statements were authorized for issue by the Board of Directors on May 18, 2016.

b) Basis of measurement
The financial information included in the financial statements for the year ended December 31, 2015, and for the related comparative periods, has been prepared under the historical cost basis, except for financial instruments which are measured at fair value. The Utility's policy for these items is described in Note 3 below.

c) Adoption of new and revised standards and interpretations
The IASB issued IFRS 14, *Regulatory Deferral Accounts*, which allows an entity subject to rate regulation to continue to apply its previous GAAP accounting policies for regulatory deferral account balances when it first adopts IFRS. IFRS 14 provides certain exceptions to, or exemptions from other standards, modifies the presentation requirements of regulatory deferral account balances and related activity and adds disclosure on the amount, timing and uncertainty of future cash flows from any regulatory account balances. The standard is effective for fiscal years beginning on or after January 1, 2016 and earlier adoption is permitted. The Utility has elected to early adopt this standard. The changes are outlined in Note 26.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014 for the purpose of the transition to IFRS, unless otherwise indicated.

Yukon Energy Corporation

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

December 31 2015

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

The significant areas of judgment, estimates and assumptions are as follows:

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

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

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

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

Post-employment benefits
The Utility accrues for its obligations under defined benefit pension plans using actuarial valuation methods and other assumptions to estimate the projected benefit obligation and the associated expense related to the current period, as well as the return on plan assets. The key assumptions utilized include the long-term rate of inflation, rates of future compensation, liability discount rates and the expected return on plan assets. Changes in these assumptions give rise to gains and losses which are recognized immediately in other comprehensive income and then are reclassified to retained earnings each year. The obligations are measured by discounting the Utility's future payments under these plans. In addition, actual payments may vary from the estimates used to project the obligations and the net expense.

Yukon Energy Corporation

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

December 31 2015

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

d) 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 AFUDC rate is based on the Utility's weighted average cost of debt. The AFUDC capitalized for 2015 was $714,000 (2014 - $1,188,000). The AFUDC rate estimate was 2.46% for 2015 (2014 - 4.01%).

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

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

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

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

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

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

Yukon Energy Corporation

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

December 31 2015

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

Assets under construction are recorded as in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

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

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

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

Gains and losses on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, are deferred and amortized over the remaining expected useful life of the related assets under regulatory accounting (Note 9). These gains and losses are recognized immediately in net income under IFRS.

Yukon Energy Corporation

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

h) Property, plant and equipment - continued
Major overhaul costs are capitalized and depreciated on a straight-line basis over the period of the expected useful life (until the next major overhaul) which varies from 5 to 10 years. However, major overhaul costs cannot be depreciated for regulatory purposes until the costs are approved by the YUB (Note 9). Repairs and maintenance costs of property plant and equipment are expensed as incurred unless they meet the criteria of a betterment.

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

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

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

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

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

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

Yukon Energy Corporation

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

k) Rate regulated accounting policies
Regulatory deferral accounts
Regulatory deferral accounts in these financial statements are accounted for differently than they would be in the absence of rate regulation. Where regulatory decisions dictate, the Utility defers certain costs or revenues as regulatory deferral account debit balances or regulatory deferral account credit balances on the statement of financial position and recognizes them in the net movement in regulatory deferral account balances in the statement of operations and other comprehensive income as it collects or refunds amounts through future customer rates. Any adjustments to these regulatory deferral accounts are recognized in the net movement in regulatory deferral account balances in the period that the YUB renders a subsequent decision. All amounts maintained as regulatory deferral account debit balances and regulatory deferral account credit balances are expected to be recovered or settled and are assessed on a yearly basis by comparing the rates approved by the YUB to the current balances. The recovery or settlement of regulatory deferral account balances through future rates is impacted by demand risk and regulatory risks (e.g. potential future decisions of the YUB which could result in material adjustments to these regulatory deferral account debit balances and regulatory deferral account credit balances as described in Note 1(b)).

i) Regulatory deferral account debit balances
Regulatory deferral account debit balances represent incurred costs which have been deferred and are recognized or being amortized over various periods as approved by the YUB. Regulatory deferral account debit balances represent costs which are expected to be recovered from customers in future periods through the rate-setting process. In the absence of rate regulation and the Utility's adoption of IFRS 14 (see Note 2(c)), such costs would be expensed as incurred.

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

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

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

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

Yukon Energy Corporation

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December 31 2015

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

The Utility does not have a provision for environmental liabilities as there is no present obligation to remediate.

n) Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's Parent, the YG, or the Government of Canada. These contributions are deferred upon receipt and amortized to income on the same basis as the assets to which they relate.

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

p) Post-employment benefits and other comprehensive income
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. 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.

For the defined benefit plan 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. Remeasurements of the net defined benefit liability, including actuarial gains and losses and return on plan assets, are recognized in other comprehensive income ("OCI") and are not reclassified to net income in a subsequent period. The Utility's policy is to immediately transfer actuarial gains and losses recognized in OCI to retained earnings. The expected return on plan assets is based on the fair value of these assets.

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

3. SIGNIFICANT ACCOUNTING POLICIES - continued

p) Post-employment benefits and other comprehensive income - continued
Employees joining the Utility after January 1, 2002 are eligible for a defined contribution retirement plan and are not eligible to participate in the defined benefit pension plan. Contributions are required by both employees and the Utility to cover the current service cost of this defined contribution retirement plan. The Utility has no legal or constructive obligation to pay further contributions with respect to this plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represents the obligation of the Utility.

q) New standards and interpretations not yet adopted
A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Utility, except for:

i) IFRS 9, *Financial Instruments,* which will replace IAS 39, Financial Instruments: Recognition and Measurement and IFRIC 9, Reassessment of Embedded Derivatives. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard is expected to impact the classification and measurement of financial assets, introduce changes to financial liabilities and includes new hedge accounting requirements. The Utility intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

ii) On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Utility intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. CASH

The cash balance includes an amount of $Nil (December 31, 2014 - $Nil, January 1, 2014 - $1,292,000) that is restricted for the payment of a contractor holdback.

Yukon Energy Corporation

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

December 31 2015

5. ACCOUNTS RECEIVABLE

	December 31 2015	December 31 2014	January 1 2014
Wholesale energy sales	$ 3,549	$ 3,800	$ 5,401
Retail energy sales	1,321	1,485	1,869
Due from related parties (Note 20)	850	807	548
Other	627	970	591
	$ 6,347	$ 7,062	$ 8,409

At December 31, 2015, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	$ 5,680	$ 192	$ 485	$ 6,357
Allowance for doubtful accounts			(10)	(10)
	$ 5,680	$ 192	$ 475	$ 6,347

At December 31, 2014, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	$ 6,548	$ 2	$ 522	$ 7,072
Allowance for doubtful accounts			(10)	(10)
	$ 6,548	$ 2	$ 512	$ 7,062

At January 1, 2014, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	$ 7,578	$ 17	$ 878	$ 8,473
Allowance for doubtful accounts			(64)	(64)
	$ 7,578	$ 17	$ 814	$ 8,409

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

	December 31 2015	December 31 2014
Allowance for doubtful accounts at beginning of year	$ (10)	$ (64)
Amounts written off as uncollectable	-	54
Allowance for doubtful accounts at end of year	$ (10)	$ (10)

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

6. INVENTORIES

	December 31 2015	December 31 2014	January 1 2014
Materials and supplies	$ 3,105	$ 2,661	$ 2,796
Diesel fuel	333	404	426
Liquefied natural gas	176	-	-
	$ 3,614	$ 3,065	$ 3,222

The amount of inventory expensed during the year is $781,000 (2014 - $227,000) for fuel as disclosed in note 18 and $75,000 (2014 - $145,000) for materials and supplies.

7. PROPERTY, PLANT AND EQUIPMENT

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

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
Cost:						
At January 1, 2014	$ 224,607	$ 142,442	$ 12,543	$ 2,885	$ 20,537	$ 403,014
Additions	-	-	-	-	37,415	37,415
Transfers	6,088	2,144	1,420	349	(10,001)	-
Disposals	-	-	(24)	-	-	(24)
At December 31, 2014	230,695	144,586	13,939	3,234	47,951	440,405
Additions	-	-	-	-	22,255	22,255
Transfers	44,519	15,908	1,913	359	(62,699)	-
Disposals	(22)	-	-	(112)	-	(134)
At December 31, 2015	$ 275,192	$ 160,494	$ 15,852	$ 3,481	$ 7,507	$ 462,526
Accumulated depreciation:						
At January 1, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation*	4,112	3,962	796	269	-	9,139
Disposals	-	-	(20)	-	-	(20)
At December 31, 2014	4,112	3,962	776	269	-	9,119
Depreciation*	4,903	4,248	812	290	-	10,253
Disposals	(1)	-	-	(39)	-	(40)
At December 31, 2015	$ 9,014	$ 8,210	$ 1,588	$ 520	$ -	$ 19,332
Net book value:						
At January 1, 2014	$ 224,607	$ 142,442	$ 12,543	$ 2,885	$ 20,537	$ 403,014
At December 31, 2014	$ 226,583	$ 140,624	$ 13,163	$ 2,965	$ 47,951	$ 431,286
At December 31, 2015	$ 266,178	$ 152,284	$ 14,264	$ 2,961	$ 7,507	$ 443,194

* Included in generation depreciation is the annual depreciation for overhauls of $778,000 (2014 - $546,000) which is recorded in regulatory account expenses in Note 18.

Yukon Energy Corporation

Notes to Financial Statements
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8. INTANGIBLE ASSETS

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

	Software	Deferred Customer Service Costs	Financial Software	Aishihik Licensing	Other Licensing	Total
Cost:						
At January 1 2014	$ 119	$ 443	$ 2,406	2,991	$ 1,724	$ 7,683
Additions	27	-	-	-	516	543
Disposals	(34)	-	-	-	(30)	(64)
At December 31, 2014	112	443	2,406	2,991	2,210	8,162
Additions	281	-	-	51	306	638
Acquisitions	69	-	-	-	-	69
Disposals	-	-	-	(10)	-	(10)
At December 31, 2015	$ 462	$ 443	$ 2,406	3,032	$ 2,516	$ 8,859
Accumulated amortization:						
At January 1, 2014	-	-	-	-	-	-
Amortization	62	64	284	524	44	978
Disposals	(34)	-	-	-	(30)	(64)
At December 31, 2014	28	64	284	524	14	914
Amortization	33	64	284	524	58	963
Disposals	-	-	-	(10)	-	(10)
At December 31, 2015	$ 61	$ 128	$ 568	$ 1,038	$ 72	$ 1,867
Net book value:						
At January 1, 2014	$ 119	$ 443	$ 2,406	$ 2,991	$ 1,724	$ 7,683
At December 31, 2014	84	379	2,122	2,467	2,196	7,248
At December 31, 2015	401	315	1,838	1,994	2,444	6,992

The internally generated costs and externally purchased costs included in these categories software, deferred customer service costs, financial software, Aishihik licensing and other licensing are approximately 50% internal and 50% external at December 31, 2015, December 31, 2014 and January 1, 2014.

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

9. REGULATORY ACCOUNTS
Regulatory deferral account debit balances

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Total
Cost:							
At January 1, 2014	18,983	566	3,593	-	332	330	23,804
Costs incurred	2,167	-	707	1,419	-	196	4,489
Regulatory provision	-	-	-	(502)	-	(226)	(728)
Disposals	(356)	-	(24)	-	-	-	(380)
Contributions received	-	-	(132)	-	-	-	(132)
At December 31, 2014	20,794	566	4,144	917	332	300	27,053
Costs incurred	4,110	-	343	1,229	144	193	6,019
Regulatory provision	-	-	-	(502)	-	(226)	(728)
Disposals	(183)	-	-	-	(332)	-	(515)
Contribution received	(6,166)	-	(127)	-	-	-	(6,293)
At December 31, 2015	18,555	566	4,360	1,644	144	267	25,536
Accumulated amortization:							
At January 1, 2014	2,502	226	871	-	284	-	3,883
Amortization	1,196	113	252	-	24	-	1,585
Disposals/Retirement	(356)	-	(24)	-	-	-	(380)
At December 31. 2014	3,342	339	1,099	-	308	-	5,088
Amortization	1,185	114	246	-	24	-	1,569
Disposals	(183)	-	-	-	(332)	-	(515)
At December 31, 2015	4,344	453	1,345	-	-	-	6,142
Net book value:							
At January 1, 2014	16,481	340	2,722	-	48	330	19,921
At December 31, 2014	17,452	227	3,045	917	24	300	21,965
At December 31, 2015	14,211	113	3,015	1,644	144	267	19,394
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the statement of operations and other comprehensive income):							
December 31, 2014	971	(113)	323	917	(24)	(30)	2,044
December 31, 2015	(3,241)	(114)	(30)	727	120	(33)	(2,571)
Remaining recovery years							
At January 1, 2014	5 to 10 years	3 years	10 to 45 years	-	2 years	Indeterminate	
At December 31, 2014	5 to 10 years	2 years	10 to 45 years	Indeterminate	1 year	Indeterminate	-
At December 31, 2015	5 to 10 years	1 year	10 to 45 years	Indeterminate	5 years	Indeterminate	-
Absent rate regulation, net income would increase (decrease) by:							
December 31, 2014	(971)	113	(323)	(917)	24	30	(2,044)
December 31, 2015	3,241	114	30	(727)	(120)	33	2,571

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

9. REGULATORY ACCOUNTS - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	Deferred Gains And losses (ix)	Total
Cost:					
At January 1, 2014	23,804	259	6	-	24,069
Cost incurred	4,489	684	13	-	5,186
Regulatory provision	(728)	-	-	-	(728)
Disposals	(380)	-	-	-	(380)
Contributions received	(132)	-	-	-	(132)
At December 31, 2014	27,053	943	19	-	28,015
Cost incurred	6,019	900	-	-	6,919
Regulatory provision	(728)	-	-	-	(728)
Disposals	(515)	-	-	-	(515)
Contributions received	(6,293)	-	(15)	-	(6,308)
At December 31, 2015	25,536	1,843	4	-	27,383
Accumulated amortization:					
At January 1, 2014	3,883	-	-	-	3,883
Amortization	1,585	-	-	-	1,585
Disposals	(380)	-	-	-	(380)
At December 31. 2014	5,088	-	-	-	5,088
Amortization	1,569	-	-	-	1,569
Disposals	(515)	-	-	-	(515)
At December 31, 2015	6,142	-	-	-	6,142
Net book value:					
At January 1, 2014	19,921	259	6	-	20,186
At December 31, 2014	21,965	943	19	-	22,927
At December 31, 2015	19,394	1,843	4	-	21,241
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement of regulatory deferral account balances on the statement of operations and other comprehensive income):					
December 31, 2014	2,044	684	13	-	2,741
December 31, 2015	(2,571)	900	(15)	-	(1,686)
Remaining recovery years					
At January 1, 2014		Indeterminate	1 year		
At December 31, 2014		Indeterminate	1 year		
At December 31, 2015		Indeterminate	1 year		
Absent rate regulation, Net Income would increase (decrease) by:					
December 31, 2014	(2,044)	(684)	(13)	-	(2,741)
December 31, 2015	2,571	(900)	15	-	1,686

(a) Regulatory deferral account debit balances

(i) Feasibility studies and infrastructure planning

The Utility undertakes certain studies to determine the feasibility of a range of projects and infrastructure proposals. While in progress, the costs of these studies are deferred within this account. Once the study is completed, the costs are amortized over a prescribed number of years ranging between five and ten years under regulatory reporting. In absence of rate regulation, IFRS would require these costs to be expensed as incurred.

(ii) IFRS planning

These deferred costs are associated with the conversion from previous GAAP to IFRS and are amortized over a term of 5 years. In absence of rate regulation, IFRS would require these costs to be expensed as incurred.

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

9. REGULATORY ACCOUNTS - continued

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

(iv) Vegetation management
These deferred costs are annual brushing costs in excess of the maximum annual amount approved by the YUB. Amortization of these costs has not yet been approved. In the absence of rate regulation, IFRS would require these costs to be expensed as incurred.

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

(vi) 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 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. In the absence of rate regulation, IFRS would require these costs to be expensed as incurred.

vii) Deferred overhauls
Overhauls represent costs incurred to overhaul engines that are used in operations and these overhauls are recorded as property, plant and equipment. The Utility was directed by YUB Order 2013-01 to defer all overhaul costs incurred after 2011 until the Utility comes before the YUB for a prudence review and the costs are approved to be depreciated. IFRS requires these completed overhauls to be considered in service and they should be depreciated through net income. In addition, IFRS also requires that AFUDC would cease when the overhaul is substantially ready for its intended purpose. As a result the AFUDC capitalized on these completed overhauls of $122,000 (2014 - $138,000) and the associated depreciation on these overhauls of $778,000 (2014 - $546,000) are shown as a regulatory deferral account debit balance. The opening balance on transition was $259,000 at January 1, 2014,

(viii) Fuel price adjustment
OIC 1995/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period. In the absence of rate regulation, IFRS would require these costs to be expensed as incurred.

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

Yukon Energy Corporation

Notes to Financial Statements
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9. REGULATORY ACCOUNTS - continued

Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing reserve (ii)	Diesel Contingency Fund (iii)	Future removal and site Restoration (iv)	Total
Cost:					
At January 1, 2014	11,602	106	8,198	4,671	24,577
Cost incurred	-	(432)	-	-	(432)
Regulatory provision	-	550	-	-	550
Cash received	-	-	1,429	-	1,429
At December 31, 2014	11,602	224	9,627	4,671	26,124
Cost incurred	-	(213)	-	(304)	(517)
Regulatory provision	-	550	-	-	550
Cash received	-	-	2,027	-	2,027
Cash refunded	-	-	(759)	-	(759)
At December 31, 2015	11,602	561	10,895	4,367	27,425
Accumulated amortization:					
At January 1, 2014	5,587	-	-	-	5,587
Amortization	262	-	-	-	262
At December 31. 2014	5,849	-	-	-	5,849
Amortization	262	-	-	-	262
Disposals	-	-	-	-	-
At December 31, 2015	6,111	-	-	-	6,111
Net book value					
At January 1, 2014	6,015	106	8,198	4,671	18,990
At December 31, 2014	5,753	224	9,627	4,671	20,275
At December 31, 2015	5,491	561	10,895	4,367	21,314
Net (increase) decrease in regulatory deferral account credit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the statement of operations and other comprehensive income):					
December 31, 2014	262	(118)	(1,429)	-	(1,285)
December 31, 2015	262	(337)	(1,268)	304	(1,039)
Remaining recovery years					
At January 1, 2014	23 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2014	22 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2015	21 years	Indeterminate	Indeterminate	Indeterminate	
Absent rate regulation, net income would increase (decrease) by:					
December 31, 2014	(262)	118	1,429	-	1,285
December 31, 2015	(262)	337	1,268	(304)	1,039

Yukon Energy Corporation

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December 31 2015

9. REGULATORY ACCOUNTS - continued

(b) Regulatory deferral account credit balances

(i) Deferred insurance proceeds
The deferred insurance proceeds represents a gain on fire insurance proceeds related to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as depreciation of the related replacement assets. In the absence of rate regulation, IFRS would have required the gain to have been fully recognized as income in the year received.

(ii) Hearing reserve
Pursuant to YUB Order 2013-01, the Utility has established a deferral account for future regulatory hearing costs. A provision is made for $550,000 of hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. Variances between the annual provision and actual costs are deferred until the following GRA or until a specific application is make to the YUB requesting recover or a refund to customers. In the absence of rate regulation, IFRS would require hearing costs to be expensed as incurred.

(iii) Diesel Contingency Fund and Energy Reconciliation Adjustment
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 a diesel cost variance due solely to water-related hydro and wind generation variances from YUB approved GRA forecasts. The DCF attracts interest based upon short/intermediate term bond rates. Any negative balance attracts interest at the lowest short-term bond rates available to the Utility through its line of credit. The Utility is required to file quarterly reports with the YUB on the DCF's activity.

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and Energy Reconciliation Adjustment ("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 recognition of the additional amounts collected from rate payers when the cost of diesel consumed in the period is less than the long-term average diesel requirements estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the period when the cost of diesel fuel incurred for the period is greater than the long-term average diesel requirements and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- $8 million for the DCF. If the balance falls outside of this range, the Utility is to make an application to the YUB requesting recovery or a refund to customers. In accordance with YUB Order 2015-06, the Utility is providing a refund to the customers of 0.68 cents/kWh effective September 1, 2015.

In the 2012/13 GRA, the Utility applied to reactivate the Energy Reconciliation Adjustment provision in the Wholesale Primary Rate Schedule. In YUB Order 2015-06, the YUB rejected the proposal and as a result the Utility eliminated the ERA balances in accounts receivable and accounts payable for the years ended December 31, 2015 and 2014.

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

Yukon Energy Corporation

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9. REGULATORY ACCOUNTS - continued

(iv) Future removal and site restoration costs
The Utility maintains a regulatory provision for future removal and site restoration related to property plant and equipment, which is incremental to that required to be recognized as an asset retirement provision under IAS 37. The reserve has been established through amortization rates approved by the YUB. The amortization rates supporting the provision are based upon depreciation studies conducted periodically by the Utility. As a result of the YUB Order 2005-12, effective January 1, 2005, the provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. 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 deferral account credit balance if they do not otherwise relate to an asset retirement provision. The period over which the provision will be reduced is dependent on the timing of future costs of demolishing, dismantling, tearing down, site restoration or otherwise disposing of the asset net of actual recoveries, and is therefore indeterminate. In the absence of rate regulation, IFRS would require these costs to be expensed or included in the gain or loss on disposal of the related property, plant and equipment, as applicable.

(c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of $6,919,000 (2014 - $5,186,000) and regulatory account credit balances of $517,000 (2014 - $432,000). Total regulatory expenses were $7,436,000 (2014 - $5,618,000) and all these amounts were paid during the year.

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

Net movement in regulatory deferral account balances related to net income is $(2,725,000) (2014 – $1,456,000) represents the adjustment to the net income for the year before net movement in regulatory deferral account balances for the effects of rate regulation in accordance with IFRS 14. The net movement figure of $(2,725,000) for 2015 is comprised of lower net income of $(1,686,000) and $(1,039,000) for both regulatory account debit balances and regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS. The net movement figure of $1,456,000 for 2014 is comprised of the higher net income of $2,741,000 for the regulatory debit balances which is partially offset by lower net income of $(1,285,000) for regulatory account credit balances.

10. BANK INDEBTEDNESS

The Utility has a $10 million unsecured line of credit that accrues interest on withdrawals at prime minus 0.75%. No commitment fees are payable on the unused portion of the line. At December 31, 2015, the outstanding balance under the line of credit was $125,000 (2014 - $1,416,019 and January 1, 2014 - $Nil).

Yukon Energy Corporation

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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2015	December 31 2014	January 1 2014
Trade payables	$ 5,763	$ 12,987	$ 10,725
Employee compensation	885	1,087	358
Due to related parties (Note 20)	433	305	132
Other	229	538	1,088
	$ 7,310	$ 14,917	$ 12,303

12. CONSTRUCTION FINANCING

	December 31 2015	December 31 2014	January 1 2014
Construction financing due December 31, 2016, bearing interest at 1.03% approved to a maximum of $25 million	$ 14,880	$ 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, due March 31, 2015, bearing interest at 1.5% approved to a maximum of $18 million	-	18,000	12,000
Construction financing, due December 31, 2016 bearing interest at 1.03% approved to a maximum of $8.4 million	8,400	-	-
	$ 23,280	$ 42,880	$ 32,385
Less current portion	23,280	42,880	20,385
	$ -	$ -	$ 12,000

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

On January 23, 2015 the Utility received the remaining $11,200,000 proceeds as part of the $21,200,000 Construction Financing Agreement with YDC.

The Utility entered into an agreement with YDC, effective December 29, 2015, to convert $39,200,000 of the construction financing into a capital contribution - $18,265,000 contributions in aid of construction (Note 15), $4,135,000 funding for feasibility studies, $8,400,000 was converted to a short-term loan due December 31, 2016 and $8,400,000 was repaid.

Yukon Energy Corporation

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13. LONG-TERM DEBT

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

	December 31 2015	December 31 2014	January 1 2014
Yukon Development Corporation			
$92,458,473 term note bearing interest at 2.40% repayable in annual installments of $3,683,800 principal, plus accrued interest with the balance of $77,726,473 due December 31, 2019 (i)	$ 88,775	$ -	$ -
$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 (i)	-	69,891	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 (i)	-	15,044	15,727
$21,900,000 flexible term note bearing interest up to 5.46% repayable in annual installments of $336,923 principal, plus accrued interest with the balance of $8,423,078 due December 31, 2051 (ii)	20,552	20,889	21,226
$5,505,000 term note bearing interest at 2.40% interest only payable annually, due December 31, 2039	5,505	5,505	-
$20,984,404 term note bearing interest at 2.21% repayable in annual installments of $839,376 principal, plus accrued interest with the balance due December 31, 2040	20,984	-	-
Unsecured advance bearing interest at 3.97%, due one year after demand (i)	-	2,053	2,053
Unsecured advance bearing interest at 4.27%, due one year after demand (i)	-	5,471	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.	837	1,911	2,946
The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Payable in monthly installments of $50,407 interest and principal with the balance due on December 28, 2022 (iii)	10,036	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	251	281	311
	146,940	131,411	131,312
Less current portion	6,066	72,347	5,406
	$ 140,874	$ 59,064	$ 125,906

Yukon Energy Corporation

Notes to Financial Statements
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December 31 2015

13. LONG-TERM DEBT - continued

(i) Debt Refinancing
The Utility entered into an agreement with YDC on January 1, 2015 (approved April 16, 2015) 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 restructuring 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 the parties negotiate alternative repayment.

(ii) $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 0.61% (2014 - negative 0.53% and January 1, 2014 - positive 0.60%)

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

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

2016	$ 6,066
2017	5,245
2018	5,254
2019	79,283
2020	1,570
Thereafter	49,522
	$ 146,940

Fair value
The fair value of long-term debt at December 31, 2015 is $149 million (December 31, 2014 - $136 million, January 1, 2014 - $136 million). The fair value for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

Yukon Energy Corporation

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14. POST-EMPLOYMENT BENEFITS

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

Employees joining the Utility after January 1, 2002 are not eligible to participate in the employee defined benefit 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 2015, these were $446,000 (2014 - $378,000).

The employee plan is regulated by the Office of the Superintendent of Financial Institutions through the *Pension Benefits Standards Act and regulations.* This Act and accompanying regulations impose, among other things, minimum funding requirements.

These minimum funding requirements require the Utility make special payments as prescribed by the Office of the Superintendent of Financial Institutions to repay any unfunded liability or deficit that may exist. For the employee pension plan the Utility is required to pay $323,700 as a minimum annual payment in each of the next 12 years (2014 - $390,000 in each of the next 13 years, 2013 - $509,600 in each of the next 14 years).

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

Risks associated with defined benefit plans
The pension plans expose the Utility to actuarial risk such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk is the risk that the present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estate.

Interest rate risk is the risk that bond interest will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk is the risk that the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk is the risk that the present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Yukon Energy Corporation

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14. POST-EMPLOYMENT BENEFITS - continued

Net defined benefit liability

	December 31 2015	December 31 2014
Present value of benefit obligations		
Balance, beginning of year	$ 20,690	$ 17,953
Employee Contributions	89	100
Current service cost	544	561
Interest cost	847	861
Benefits paid	(397)	(775)
Actuarial losses (gains) on experience	(657)	1,990
Actuarial losses (gains) on financial assumptions	(323)	-
Balance, end of year	$ 20,793	$ 20,690
Fair value of plan assets		
Balance, beginning of year	14,672	13,285
Interest income on plan assets	599	618
Gain (losses) on plan assets	(468)	479
Employee contributions	89	100
Employer contributions	905	1,040
Benefits paid	(360)	(775)
Administrative costs	(80)	(75)
Balance, end of year	15,357	14,672
Net defined benefit liability	$ 5,436	$ 6,018

The balance of the net defined benefit liability at January 1, 2014 is $4,668,000 which is the opening balance of the December 31, 2014 present value of benefit obligations ($17,953,000) net of the opening balance of the December 31, 2014 fair value of plan asset ($13,285,000).

Components of benefit plan cost:

	December 31 2015	December 31 2014
Current Service cost	544	561
Interest cost	847	861
Interest income on plan asset	(599)	(641)
Administrative costs	80	75
Defined benefit expense in Statement of Operations	872	856
Defined contribution expense	446	378
Total benefit expense in Statement of Operations	$ 1,318	$ 1,234

Yukon Energy Corporation

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December 31 2015

14. POST-EMPLOYMENT BENEFITS - continued

Actuarial (gains)/losses on obligation	(980)	1,991
Loss/(gains) on plan assets	468	(479)
Total re-measurements included in Other Comprehensive Income	(512)	1,512
Total benefit costs recognized in Statement of Operations and Other Comprehensive Income	806	2,746

The fair value of the plan assets is based on market values as reported by the plans' custodians as at each applicable statement of financial position date. The distribution of assets by major asset class is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Equities	52.4%	53.1%	53.1%
Fixed income securities	36.8%	36.1%	36.1%
Real estate	10.8%	10.8%	10.8%

Significant assumptions:

	December 31 2015	December 31 2014	January 1 2014
Discount rate - accrued benefit obligation	4.10%	4.00%	4.75%
Assumed rate of salary escalation	3.00%	3.00%	3.00%
Pension growth	2.00%	2.00%	2.00%

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

Assumptions and sensitivity as at December 31, 2015

Assumption		+1%	-1%	+1%	-1%
Discount rate	4.10%	-14.6%	18.6%	$ (2,839)	$ 3,617
Salary growth	3.00%	3.2%	-3.0%	616	(579)
Pension growth	2.00%	13.7%	-11.4%	2,678	(2,220)
Life expectancy (1 year movement)		2.3%	-2.3%	446	(450)

Assumptions and sensitivity as at December 31, 2014

Assumption		+1%	-1%	+1%	-1%
Discount rate	4.00%	-15.1%	19.4%	$ (2,927)	$ 3,761
Salary growth	3.00%	3.1%	-2.9%	601	(562)
Pension growth	2.00%	13.6%	-11.2%	2,637	(2,171)
Life expectancy (1 year movement)		2.3%	-2.3%	446	(446)

Yukon Energy Corporation

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14. POST-EMPLOYMENT BENEFITS - continued

Assumptions and sensitivity as at January 1, 2014

Assumption		+1%	-1%	+1%	-1%
Discount rate	4.75%	-14.4%	18.3%	$ (2,457)	$ 3,122
Salary growth	3.00%	2.9%	-2.8%	495	(478)
Pension growth	2.00%	12.8%	-10.7%	2,184	(1,825)
Life expectancy (1 year movement)		2.1%	-2.1%	358	(358)

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

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

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

The average duration of the benefit obligation is 16.6 years (2014 - 17.3 years, 2013 - 16.4 years).

The Utility expects to make payments of $871,000 to the defined benefit plans during the next financial year.

Yukon Energy Corporation

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15. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Government of Canada	Parent since 1998	Customer since 1998	Yukon Government since 1998	Pre-1998 contributions	Total
Cost:						
At January 1, 2014	71,000	73,545	23,419	10,879	1,739	180,582
Additions	-	-	582	-	-	582
At December 31, 2014	71,000	73,545	24,001	10,879	1,739	181,164
Additions	-	18,265	578	161	-	19,004
At December 31, 2015	71,000	91,810	24,579	11,040	1,739	200,168
Accumulated amortization:						
At January 1, 2014	2,057	5,477	6,423	1,228	1,206	16,391
Amortization	991	1,217	1,165	197	43	3,613
At December 31, 2014	3,048	6,694	7,588	1,425	1,249	20,004
Amortization	991	1,217	1,173	200	43	3,624
At December 31, 2015	4,039	7,911	8,761	1,625	1,292	23,628
Net book value:						
At January 1, 2014	68,943	68,068	16,996	9,651	533	164,191
At December 31, 2014	67,952	66,851	16,413	9,454	490	161,160
At December 31, 2015	66,961	83,899	15,818	9,415	447	176,540

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

16. DECOMMISSIONING FUND

	December 31 2015	December 31 2014
Opening balance	$ 2,586	$ 2,553
Interest	26	33
Closing balance	$ 2,612	$ 2,586

Yukon Energy Corporation

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17. SALES OF POWER

	2015	2014
Wholesale	$ 29,794	$ 30,199
Industrial	4,230	4,095
General service	4,265	4,172
Residential	2,015	2,075
Secondary sales	544	410
Sentinel and street lights	100	102
	$ 40,948	$ 41,053

18. OPERATIONS AND MAINTENANCE EXPENSES

	2015	2014
Wages and benefits	$ 5,553	$ 5,639
Regulatory account expenses (Note 9 (c))	7,436	5,618
Contractors	1,826	1,551
Materials and consumables	1,143	1,409
Travel	341	458
Rent	234	238
Fuel	781	227
Communication	62	46
	$ 17,376	$ 15,186

19. ADMINISTRATION EXPENSES

	2015	2014
Wages and benefits	$ 5,516	$ 5,549
External labour	1,094	1,385
Insurance and taxes	1,593	1,348
Materials, consumables and general	849	955
Licences and fees	614	581
Travel	170	232
Board fees	55	123
	$ 9,891	$ 10,173

Yukon Energy Corporation

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20. RELATED PARTY TRANSACTIONS

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

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

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

	2015	2014
Revenue		
Sales of service to YDC	$ 14	$ 65
Program cost reimbursement from YG	127	118
Rate subsidy received from YDC	274	269
Funding from YDC	6,135	-
Operating expenses		
Interest expense on borrowings from YDC	$ 2,964	$ 4,166
Other receipts		
Construction financing from YDC	11,200	16,000
Long-term debt from YDC	20,984	-
Other payments		
Repayment of principal on borrowings from YDC	$ 4,021	$ 4,021
Repayment of construction financing from YDC	8,400	-

During January 2015 the Utility received an additional $11,200,000 of construction financing relating to a 2014 agreement (included in the above table).

The Utility entered into an agreement with YDC, effective December 29, 2015 to convert $39,200,000 (Note 12) of the construction financing into a capital contribution - $18,265,000 recorded as contributions in aid of construction (Note 15), $4,135,000 funding for feasibility studies which is recorded as funding from YDC (which is included in the above table), $8,400,000 was converted to a short-term loan due December 31, 2016 and $8,400,000 was repaid (included in the above table).

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20. RELATED PARTY TRANSACTIONS - continued

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

	December 31 2015	December 31 2014	January 1 2014
YDC			
Accounts receivable	$ 27	$ 158	$ 146
Accounts payable	128	-	130
Construction financing	23,280	42,880	32,385
Current portion of long-term debt	4,860	70,911	4,021
Long-term debt	130,957	47,942	113,347
YG			
Accounts receivable	$ 823	$ 649	$ 402
Accounts payable	301	305	2

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

Transactions with Key Management Personnel
The Utility's key management personnel include members of the senior management team and the Board of Directors, a total of 18 individuals (2014 - 16 individuals). Key management personnel compensation is as follows:

Year ended December 31	2015	2014
Short-term employee benefits	1,606	$ 1,535
Post-employment benefits	55	42
Retirement benefits	18	32
	1,679	$ 1,609

Yukon Energy Corporation

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21. COMMITMENTS

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

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

Contractual obligations
The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2015 as the product or service had not been provided. The total commitments at year end are $5,712,000 (December 31, 2014 - $10,420,000, January 1, 2014 - $6,730,000).

22. CONTINGENCIES

Aishihik Third Turbine Project
This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for $4,000,000 plus interest and costs alleging the Utility has not paid for work performed. 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.

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

23. PROVISION FOR ENVIRONMENTAL LIABILITIES

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

The Utility has conducted environmental site assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2015 no new provisions for environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

Yukon Energy Corporation

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2015, the Utility's financial instruments included cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, construction financing, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

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

The Utility has access to a $10 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.75% 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 classified as held for trading and are recognized at their fair value on the date the contract has been entered into. Any subsequent unrealized and realized gains and losses are reported in net income during the period in which the fair value movement occurred. The fair value of the interest rate swaps is estimated using standard market valuation techniques and is provided to the Utility by the financial institution that is the counterparty to the transactions.

The Utility did not engage in any other hedging transactions.

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

As at December 31, 2015, the Utility had an interest rate swap agreement in place with a notional principal amount of $10.0 million (December 31, 2014 - $10.4 million and January 1, 2014 - $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%.

The fair value of the interest rate swap agreement on December 31, 2015 was a liability of $553,000 (December 31, 2014 - liability of $213,000 and January 1, 2014 - asset of $430,000). The decrease in the fair value in 2015 of $340,000 (2014 – decrease of $644,000) is recorded on the statement of operations and comprehensive income 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 $593,000 (December 31, 2014 - $665,000 and January 1, 2014 - $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.

Yukon Energy Corporation

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

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

	December 31 2015	December 31 2014	January 1 2014
Cash	$ 1,672	$ 160	$ 8,315
Accounts receivable	6,347	7,062	8,409
	$ 8,019	$ 7,222	$ 16,724

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

Credit risk on accounts receivable is considered minimal as the Utility has experienced insignificant bad debt in prior years. In addition, its primary customer is a rate regulated utility that purchases power from the Utility for resale and as such these receivables are considered fully collectible. Included in the accounts receivable past due but not impaired at December 31, 2015 are $667,000 (December 31, 2014 - $514,000 and January 1, 2014 - $831,000) which are primarily due from related parties which management believes will be received in full.

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

The Utility's largest current liability is current portion long-term debt which is predominantly due to the parent, and the Utility has successfully renegotiated this debt in prior years. In addition, rate regulation assists the Utility with liquidity management by providing consistent revenues and a consistent debt to equity ratio.

Fair values
The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2015:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	$553	-	$553
Long-term debt			$149,000	$149,000

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

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
Long-term debt	-	-	$136,000	$136,000

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at January 1, 2014:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related asset		$430	-	$430
Long-term debt		-	$136,000	$136,000

25. CAPITAL MANAGEMENT

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

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

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

Yukon Energy Corporation

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25. CAPITAL MANAGEMENT - continued

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

	December 31 2015	December 31 2014	January 1 2014
Long-term debt due within one year	$ 6,066	$ 72,346	$ 5,406
Long-term debt	140,874	59,065	125,906
Total debt	146,940	131,411	131,312
Add provision for decommissioning of industrial customer spur line	2,612	2,586	2,553
Total debt to include in the calculation	$ 149,552	$ 133,997	$ 133,865
Share capital	$ 39,000	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600	14,600
Retained earnings	46,303	38,076	31,929
Total shareholder's equity	99,903	91,676	85,529
Total capitalization	$ 249,455	$ 225,673	$ 219,394
Total debt to total capitalization	60 %	59 %	61 %

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

26. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2(a), these are the Utility's first financial statements prepared in accordance with IFRS. The accounting policies set out in Note 3 comply with IFRS issued and effective as of December 31, 2015 (or not yet effective but available for early adoption, as in the case of IFRS 14) and have been applied in preparing the financial statements as at and for the year ended December 31, 2015, and December 31, 2014 and in preparing the opening IFRS statement of financial position as at January 1, 2014 (the Utility's date of transition).

IFRS 1 provides specific requirements for an entity's initial adoption of IFRS. In preparing its opening IFRS statement of financial position, the Utility has adjusted amounts reported previously in its financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRSs has affected the Utility's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Pursuant to IFRS 1, the Utility has applied the following relevant mandatory exceptions to retrospective application of IFRS:

Yukon Energy Corporation

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26. EXPLANATION OF TRANSITION TO IFRS - continued

Estimates

IFRS 1 provides that estimates made in accordance with IFRS at the date of transition shall be consistent with estimates made in accordance with previous GAAP (after adjustment to reflect differences in accounting policies), unless there is objective evidence those estimates were in error. There were no adjustments made to previous GAAP estimates.

In accordance with IFRS 1, the Utility has applied the following voluntary exemptions in the transition from previous GAAP to IFRS:

i) Deemed cost

IFRS 1 allows the Utility to use the previous GAAP carrying value of property, plant and equipment and intangible assets used, or previously used, in operations subject to rate regulation at the transition date as its new "deemed" cost for IFRS. The Utility has elected to apply this exemption to all rate regulated property, plant and equipment and intangible assets and none of these assets required an impairment provision at the transition date.

ii) Exemption for borrowing costs

IFRS 1 allows the Utility to apply the transitional provisions set out in IAS 23, *Borrowing Costs*. The Utility has elected to take the exemption to apply IAS 23 prospectively from the date of transition.

iii) Asset retirement obligations (ARO)

IFRS 1 allows the Utility to avoid retroactively applying the provisions of IAS 37, Provisions, *Contingent Liabilities and Contingent Assets* and IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Utility has elected to determine the asset retirement obligation liability at the date of transition using current market-based discount rates, discounting the provision back to the date of the original obligation using historical risk-adjusted rates and depreciating the resulting present value from the date of the obligation to the transition date.

iv) Lease arrangements

IFRS 1 allows the Utility to elect to assess all arrangements for leases at the date of transition rather than the inception of the arrangements. The Utility has elected to apply this exemption.

v) Transfers of assets from customers

IFRS 1 allows the Utility to apply the transitional requirements of IFRIC 18, *Transfer of Assets from Customers*, prospectively to transfers from customers received on or after the date of transition. IFRIC 18 provides accounting and income recognition guidance for these transfers. The Utility has elected to apply this exemption.

Differences between the Utility's previous GAAP and its IFRS financial position as at January 1, 2014 and December 31, 2014, its financial performance for the year ended December 31, 2014, and its cash flows for the year ended December 31, 2014, are outlined in the following tables and explanatory notes:

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26. EXPLANATION OF TRANSITION TO IFRS - continued

Reconciliation of the Statement of Financial Position as at January 1, 2014 (Transition Date)

	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash		$ 8,315	-	$ 8,315
Accounts receivable	(b)	8,415	(6)	8,409
Inventories		3,222	-	3,222
Derivative related asset		430	-	430
Prepaid expenses		672	-	672
		21,054	(6)	**21,048**
Non-current				
Deferred uninsured losses	(b)	330	(330)	-
Property, plant and equipment	(d, e)	405,798	(2,784)	403,014
Intangible assets	(d)	-	7,683	7,683
Deferred charges and intangible assets	(b, d)	24,749	(24,749)	-
Total assets		**451,931**	(20,186)	**431,745**
Regulatory deferral account debit balances	(b, e)	-	20,186	20,186
Total assets and regulatory deferral account debit balances		**$ 451,931**	-	**$ 451,931**
Liabilities				
Current				
Accounts payable and accrued liabilities		$ 12,303	-	$ 12,303
Construction financing		20,385	-	20,385
Current portion of long-term debt		5,406	-	5,406
		38,094	-	**38,094**
Non-current				
Long-term construction financing		12,000	-	12,000
Post-employment benefits	(a)	1,160	3,508	4,668
Contributions in aid of construction	(b)	170,206	(6,015)	164,191
Future removal and site restoration costs	(b)	4,671	(4,671)	-
Decommissioning fund		2,553	-	2,553
Regulatory hearing reserve	(b)	106	(106)	-
Diesel contingency fund	(b)	8,198	(8,198)	-
Long-term debt		125,906	-	125,906
Total liabilities		**362,894**	(15,482)	**347,412**
Equity				
Share capital		39,000	-	39,000
Contributed surplus		14,600	-	14,600
Retained earnings	(a)	35,437	(3,508)	31,929
Total equity		**89,037**	(3,508)	**85,529**
Total liabilities and equity		**451,931**	(18,990)	**432,941**
Regulatory deferral account credit balances	(b)	-	18,990	**18,990**
Total liabilities, equity and regulatory deferral account credit balances		**$ 451,931**	-	**$ 451,931**

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Notes to Financial Statements
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26. EXPLANATION OF TRANSITION TO IFRS - continued

Reconciliation of the Statement of Financial Position as at December 31, 2014

	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash		$ 160	-	$ 160
Accounts receivable	(b)	7,081	(19)	7,062
Inventories		3,065	-	3,065
Prepaid expenses		719	-	719
		11,025	(19)	**11,006**
Non-current				
Deferred uninsured losses	(b)	300	(300)	-
Property, plant and equipment	(d, e)	434,435	(3,149)	431,286
Intangible assets	(d)	-	7,248	7,248
Deferred charges and intangible assets	(b, d)	26,707	(26,707)	-
Total assets		**472,467**	(22,927)	**449,540**
Regulatory deferral account debit balances	(b, e)	-	22,927	22,927
Total assets and regulatory deferral account debit balances		**$ 472,467**	-	**$ 472,467**
Liabilities				
Current				
Bank indebtedness		$ 1,331	-	$ 1,331
Accounts payable and accrued liabilities	(a)	14,952	(35)	14,917
Construction financing		42,880	-	42,880
Derivative related liability		213	-	213
Current portion of long-term debt	(f)	5,456	66,891	72,347
		64,832	66,856	**131,688**
Non-current				
Post-employment benefits	(a)	950	5,068	6,018
Contributions in aid of construction	(b)	166,913	(5,753)	161,160
Future removal and site restoration costs	(b)	4,671	(4,671)	-
Decommissioning fund		2,586	-	2,586
Regulatory hearing reserve	(b)	224	(224)	-
Diesel contingency fund	(b)	9,627	(9,627)	-
Long-term debt	(f)	125,955	(66,891)	59,064
Total liabilities		**375,758**	(15,242)	**360,516**
Equity				
Share capital		39,000	-	39,000
Contributed surplus		14,600	-	14,600
Retained earnings	(a)	43,109	(5,033)	38,076
Total equity		**96,709**	(5,033)	**91,676**
Total liabilities and equity		**472,467**	(20,275)	**452,192**
Regulatory deferral account credit balances	(b)	-	20,275	20,275
Total liabilities, equity and regulatory deferral account credit balances		**$ 472,467**	-	**$ 472,467**

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26. EXPLANATION OF TRANSITION TO IFRS - continued

Reconciliation of Statement of Operations and Other Comprehensive Income for the year ended December 31, 2014

	Notes	Previous GAAP	Effect of Transition to IFRS	Effect of Reclass (Note g)	IFRS
Revenue					
Sales of power	(b)	$ 39,624	1,429	-	$ 41,053
Other	(b)	340	132	-	472
		39,964	1,561	-	**41,525**
Operating expenses					
Operations and maintenance	(a,b,e)	10,057	5,129	-	15,186
Administration		10,173	-	-	10,173
Amortization of property, plant and equipment	(b,c,d)	6,473	2,120	(8,593)	-
Amortization of deferred charges	(b,d)	2,199	(2,199)	-	-
Amortization of intangible assets	(d)	568	410	(978)	-
Amortization and depreciation		-	-	9,571	9,571
		29,470	5,460	-	**34,930**
Income from operations		**10,494**	**(3,899)**	-	**6,595**
Other income					
Allowance for funds used during construction		1,188	-	-	1,188
Amortization of contributions in aid of construction	(c)	1,409	2,204	-	3,613
Interest income		113	-	-	113
		2,710	2,204	-	**4,914**
Other expenses					
Interest on borrowings		4,662	-	-	4,662
Unrealized loss (gain) on interest rate swap		644	-	-	644
Provision for uninsured losses	(b)	226	(226)	-	-
		5,532	(226)	-	**5,306**
Net income for the year before net movement in regulatory deferral account balances		**$ 7,672**	(1,469)	-	**$ 6,203**
Net movement in regulatory deferral account balances (b, e)		-	1,456		1,456
Net income for the year after net movements in regulatory deferral account balances		**7,672**	(13)	-	**7,659**
Other comprehensive income					
Remeasurement of defined benefit pension plans	(a)	-	(1,512)	-	(1,512)
Total comprehensive income for the year		**$ 7,672**	$ (1,525)	-	**$ 6,147**

Yukon Energy Corporation

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26. EXPLANATION OF TRANSITION TO IFRS - continued

Reconciliation of the Statement of Cash Flows for the year ended December 31, 2014

	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Operating activities				
Cash receipts from customers	(b)	$ 42,274	132	$ 42,406
Cash receipts from Contributions in aid of construction	(h)	-	600	600
Cash paid to employees and suppliers	(h)	(19,156)	19,156	-
Cash paid to suppliers	(h)	-	(12,150)	(12,150)
Cash paid to employees	(h)	-	(10,621)	(10,621)
Interest paid		(4,663)	-	(4,663)
Interest received		113	-	113
Cash provided by operating activities		**18,568**	(2,883)	**15,685**
Financing activities				
Receipt of construction financing		16,000	-	16,000
Repayment of long-term debt		(5,406)	-	(5,406)
Contributions in aid of construction	(b,h)	732	(732)	-
Cash provided by financing activities		**11,326**	(732)	**10,594**
Investing activities				
Additions to property, plant and equipment	(d)	(35,249)	27	(35,222)
Additions to deferred charges and intangible assets	(b,d)	(4,131)	4,131	-
Additions to intangible assets	(d)	-	(543)	(543)
Cash used in investing activities		**(39,380)**	3,615	**(35,765)**
Net decrease in cash		(9,486)	-	(9,486)
Cash, beginning of year		8,315	-	8,315
Cash, end of year		**$ (1,171)**	-	**$ (1,171)**

Yukon Energy Corporation

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26. EXPLANATION OF TRANSITION TO IFRS - continued

Statement of Changes in Equity for the year ended December 31, 2014
Yukon Energy Corporation

Reconciliation of the Statement of Changes in Equity
(in thousands of Canadian dollars)

	Common Stock Number of shares	Common Stock Share Capital	Contributed Surplus	Retained Earnings	Accumulated other Comprehensive Income	Total Equity
Previous GAAP at January 1, 2014	3,900	39,000	14,600	35,437		89,037
Effects of transition to IFRS (Note a)				(3,508)		(3,508)
IFRS at January 1, 2014	3,900	$ 39,000	$ 14,600	$ 31,929	$ -	$ 85,529
Net income for the year after net movement in regulatory deferral account balances	-	-	-	7,659	-	7,659
Other comprehensive income	-	-	-	-	(1,512)	(1,512)
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	-	-	(1,512)	1,512	-
At December 31, 2014	**3,900**	$ 39,000	$ 14,600	$ 38,076	$ -	$ 91,676

Notes to the Reconciliations

The following material adjustments were made to previous GAAP balances to arrive at the IFRS financial statements:

a) Post-employment benefits

Under previous GAAP, subject to certain criteria, the Utility would defer and amortize unrealized actuarial gains and losses into wages and benefits expense using the corridor method. Under IFRS, unrealized actuarial gains and losses are recognized in other comprehensive income and the Utility has elected to immediately transfer these amounts to retained earnings within equity. As a result, post-employment benefits increased and retained earnings decreased by $5,020,000 at December 31, 2014 (January 1, 2014 - $3,435,000) and other comprehensive income decreased in fiscal 2014 by $1,512,000 for the unrealized actuarial losses. In addition, in fiscal 2014, operations and maintenance - wages and benefits expense increased $73,000 to derecognize the actuarial gains and losses recognized under the corridor method.

Under previous GAAP, the Utility recognized a transitional asset related to the initial adoption of the standard, which was being amortized over the average remaining service period of active employees. IFRS does not recognize these transitional assets. As a result, post-employment benefits increased and retained earnings decreased by $13,000 at December 31, 2014 (January 1, 2014 - $73,000) and operations and maintenance - wages and benefits expense decreased by $60,000 to derecognize the amortization of the transition asset recognized in fiscal 2014.

In addition, as at December 31, 2014, accounts payable and accrued liabilities decreased and post-employment benefits increased by $35,000.

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26. EXPLANATION OF TRANSITION TO IFRS - continued

b) Regulatory deferral accounts

As discussed in Note 2(c), the Utility elected to adopt IFRS 14, *Regulatory Deferral Accounts* at the transition date. Under IFRS 14, regulatory deferral account balances are combined and separately presented from assets, liabilities, income and expenses. Specifically, all regulatory assets under previous GAAP are combined and reported as regulatory deferral account debit balances under IFRS and all regulatory liabilities under previous GAAP are combined and reported as regulatory deferral account credit balances under IFRS.

Under previous GAAP, cash/contributions received and cost incurred were netted against the regulatory deferral account. In addition, the amortization of the deferral accounts was presented as amortization of deferred charges. Under IFRS, the cash/contributions received are to be presented as revenue and the costs incurred are to be presented as expenses. Under IFRS, all changes in regulatory deferral account balances, including the amortization of deferred charges, is included in net movement in regulatory deferral account balances related to net income.

IFRS 14 impacted the following accounts:
Fuel price adjustment
As at December 31, 2014, accounts receivable decreased and regulatory deferral account debit balances increased by $19,000 (January 1, 2014 - $6,000) related to the fuel price adjustment. In addition, operations and maintenance - regulatory account expenses increased for costs incurred and net movement in regulatory deferral account balances related to net income increased by $13,000 for fiscal 2014.

Deferred uninsured losses
As at December 31, 2014, deferred uninsured losses decreased and regulatory deferral account debit balances increased by $300,000 (January 1, 2014 - $330,000). In addition, operations and maintenance - regulatory account expenses increased by $196,000 for costs incurred, the provision for uninsured losses decreased by $226,000 and net movement in regulatory deferral account balances related to net income decreased by $30,000 for fiscal 2014.

Deferred charges and intangible assets
As at December 31, 2014, deferred charges and intangible assets decreased and regulatory deferral account debit balances increased by $21,665,000 (January 1, 2014 - $19,591,000) related to feasibility studies, IFRS planning, regulatory costs, vegetation management and dam safety. In addition, other revenue increased by $132,000 for contributions received, operations and maintenance - regulatory account expenses increased by $4,293,000 for costs incurred, operations and maintenance - contractors expense decreased by $502,000 for regulatory provision, amortization of deferred charges decreased by $1,585,000 and net movement in regulatory deferral account balances related to net income increased by $2,074,000 for fiscal 2014. For the statement of cash flows for the year ended December 31, 2014, contributions in aid of construction decreased and cash receipts from customers increased by $132,000 for the amounts received during the year (Note 9). Also the additions to deferred charges and intangible assets decreased by $4,131,000 and cash paid for additions to intangible assets increased by $516,000 and the cash paid to suppliers increased by $3,615,000 (for the deferred charges).

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26. EXPLANATION OF TRANSITION TO IFRS - continued

b) Regulatory deferral accounts - continued

Contributions in aid of construction
As at December 31, 2014, contributions in aid of construction decreased and regulatory deferral account credit balances increased by $5,753,000 (January 1, 2014 - $6,015,000) related to the deferred insurance proceeds. In addition, amortization of property, plant and equipment and net movement in regulatory deferral account balances related to net income increased by $262,000 for fiscal 2014.

Future removal and site restoration costs
As at December 31, 2014, future removal and site restoration costs decreased and regulatory deferral account credit balances increased by $4,671,000 (January 1, 2014 - $4,671,000).

Regulatory hearing reserve
As at December 31, 2014, regulatory hearing reserve decreased and regulatory deferral account credit balances increased by $224,000 (January 1, 2014 - $106,000). In addition, operations and maintenance - regulatory account expenses increased by $432,000 for cost incurred, amortization of deferred charges decreased by $550,000, and net movement in regulatory deferral account balances related to net income decreased by $118,000 for fiscal 2014.

Diesel contingency fund
As at December 31, 2014, diesel contingency fund decreased and regulatory deferral account credit balances increased by $9,627,000 (January 1, 2014 - $8,198,000). In addition, sales of power increased and net movement in regulatory deferral account balances related to net income decreased by $1,429,000 related to cash received for fiscal 2014.

c) Amortization of contributions in aid of construction

Under previous GAAP, amortization of contributions from customers and the Government of Canada were netted on the statement of operations and other comprehensive income against amortization of property, plant and equipment. Under IFRS, amortization of contributions in aid of construction is to be presented as revenue and cannot be netted against amortization of property, plant and equipment. As a result, an adjustment has been made to increase revenues for amortization of contributions in aid of construction and increase the expense for amortization of property, plant and equipment by $2,204,000 for the year ended December 31, 2014.

d) Intangible assets

Under previous GAAP, certain mainframe and other software costs were included in property, plant and equipment. Under IFRS, software costs are included in intangible assets. As a result, at December 31, 2014, property, plant and equipment decreased and intangible assets increased by $2,206,000 (January 1, 2014 - $2,525,000). For the year ended December 31, 2014, the amortization of property, plant and equipment decreased and amortization of intangible assets increased by $346,000. For the statement of cash flows for the year ended December 31, 2014, cash paid for additions to property, plant and equipment decreased and the cash paid for additions to intangible assets increased by $27,000. There were no adjustments to the amortization periods.

Yukon Energy Corporation

Notes to Financial Statements
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26. EXPLANATION OF TRANSITION TO IFRS - continued

d) Intangible assets - continued

Under previous GAAP, deferred customer service costs and licencing costs were included in deferred charges and intangible assets. Under IFRS, the deferred customer service costs and licencing costs are presented only as intangible assets. As a result, at December 31, 2014, deferred charges and intangible assets decreased and intangible assets increased by $5,042,000 (January 1, 2014 - $5,158,000). For the year ended December 31, 2014, the amortization of deferred charges decreased and amortization of intangible assets increased by $64,000 related to the amortization of the deferred customer service costs. As noted in b) for the statement of cash flows for the year ended December 31, 2014 the cash paid for additions to intangible assets increased by $516,000. Total cash paid for additions to intangible assets is $543,000.

e) Deferred overhauls

Under previous GAAP, the Utility deferred all overhaul costs incurred after 2011 within construction work-in-progress as part of property, plant and equipment. As a result, AFUDC continued to be applied to these deferred overhauls and depreciation was not taken. Under IFRS, the deferred overhauls are to be included in property, plant and equipment and depreciated through net income when the overhaul is available for use. AFUDC would cease when the overhaul is substantially ready for its intended purpose. As a result, at December 31, 2014, regulatory deferral account debit balances increased and property, plant and equipment decreased by $943,000 (January 1, 2014 - $259,000). For the year ended December 31, 2014, operations and maintenance - regulatory account expenses and net movement in regulatory deferral account balances related to net income increased by $684,000 related to depreciation and AFUDC incurred during the year.

f) Long-term debt

Under previous GAAP, EIC 122 *Balance sheet classification of callable debt obligations and debt obligations expected to be refinanced* permitted the classification of long-term debt due within one year to be presented as non-current if, at the date of the financial statement preparation, a new financing agreement had been entered into. As a result, the Utility presented the refinanced long-term debt under previous GAAP as non-current. Under IFRS, an entity is permitted to present the long-term debt due within one year as non-current if, at the financial statement date, the entity had full discretion to renegotiate the debt. As the Utility did not have full discretion to refinance the long-term debt, the refinanced long-term debt cannot be recognized. As a result, the current portion of long-term debt increased and long-term debt decreased by $66,891,000 for the year ended December 31, 2014.

g) Presentation of expenses

IFRS states that expenses shall be classified on the statement of operations and other comprehensive income by either nature or function. Under previous GAAP, the Utility presented costs and expenses in a combination of both nature and function. The Utility has elected to present costs and expenses on the statement of operations and other comprehensive income by function and to disclose the expenses by nature in the notes to the financial statements.

Yukon Energy Corporation

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

December 31 2015

26. EXPLANATION OF TRANSITION TO IFRS - continued

The reconciliation of the operations and maintenance and administration notes from previous GAAP to IFRS is as follows:

Operations and maintenance expenses

	Notes	Previous GAAP	Effect of Transition to IFRS	Effect of Reclass (Note g)	IFRS
Wages and benefits	(a)	$ 5,626	13	$ -	$ 5,639
Maintenance					
-lines and substations		1,345	-	(1,345)	-
-hydro, diesel and wind		1,596	-	(1,596)	-
-building and vehicles		1,102	-	(1,102)	-
Fuel		227	-	-	227
Water level measurement		161	-	(161)	-
Regulatory account expense	(b,e)	-	5,618	-	5,618
Contractors	(b)	-	(502)	2,053	1,551
Materials and consumables		-	-	1,409	1,409
Travel		-	-	458	458
Rent		-	-	238	238
Communication		-	-	46	46
		$ 10,057	$ 5,129	$ -	$ 15,186

Administration expenses

	Previous GAAP	Effect of Reclass (Note g)	IFRS
Wages and benefits	$ 5,549	$ -	$ 5,549
Insurance and taxes	1,348	-	1,348
General office	1,167	(1,167)	-
Information systems	736	(736)	-
Environmental	528	(528)	-
Training, recruitment and development	348	(348)	-
Board of Directors	255	(255)	-
Regulatory loss	120	(120)	-
Material management and contracting	62	(62)	-
Intercompany services	60	(60)	-
External labour	-	1,385	1,385
Materials, consumables and general	-	955	955
Licences and fees	-	581	581
Travel	-	232	232
Board fees	-	123	123
	$ 10,173	$ -	$ 10,173

Yukon Energy Corporation

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

December 31 2015

26. EXPLANATION OF TRANSITION TO IFRS - continued

h) Statement of Cash Flows

Under previous GAAP, the cash paid to employees and suppliers are combined. Under IFRS, the cash paid to employees and suppliers are disclosed separately. As a result, the cash paid to employees and suppliers decreased by $19,156,000 cash paid to employees increased by $10,621,000 and cash paid to suppliers increased by $8,535,000 for the year ended December 31, 2014. As noted in b) for the statement of cash flows for the year ended December 31, 2014 the cash paid to suppliers increased by $3,615,000. Total cash paid to suppliers was $12,150,000.

Under previous GAAP, the cash contributions in aid of construction received during the year were presented as a financing activity. However, under IFRS, these contributions do not meet the definition of a financing activity and have been presented as an operating activity. As a result, contributions in aid of construction decreased and cash receipts from contributions in aid of construction increased by $600,000.

Staff promoting energy conservation products as part of the inCharge program. *Photo: Alistair Maitland Photography*

Yukon transmission and generation facilities

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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YUKON ENERGY

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