ATCO Electric

YUKON

THE YUKON ELECTRICAL COMPANY LIMITED

(o/a ATCO ELECTRIC YUKON)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

June 23, 2017

Independent Auditor's Report

To the Shareholder of
The Yukon Electrical Company Limited
(o/a ATCO Electric Yukon)

We have audited the accompanying financial statements of The Yukon Electrical Company Limited (o/a ATCO Electric Yukon), which comprise the balance sheet as at December 31, 2016 and the statements of earnings, comprehensive income, changes in equity and cash flow for the year then ended, and the related notes, which comprise 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Yukon Electrical Company Limited (o/a ATCO Electric Yukon) as at December 31, 2016 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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STATEMENT OF EARNINGS

(thousands of Canadian Dollars)	Note	Year Ended December 31 2016	2015
Revenues			
Rendering of services		**59,985**	59,856
Costs and expenses			
Salaries, wages and benefits		**(5,985)**	(6,055)
Plant and equipment maintenance		**(2,602)**	(2,500)
Fuel costs		**(4,895)**	(5,475)
Purchased power		**(30,611)**	(30,446)
Depreciation and amortization	7,8	**(5,731)**	(5,392)
Property and other taxes		**(266)**	(256)
Other	4	**(3,484)**	(3,026)
		(53,574)	(53,150)
Operating profit		**6,411**	6,706
Interest income		**52**	78
Interest expense	5	**(3,005)**	(3,023)
Net finance costs		**(2,953)**	(2,945)
Earnings before income taxes		**3,458**	3,761
Income taxes	6	**(1,052)**	(1,137)
Earnings for the year		**2,406**	2,624

See accompanying Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year Ended December 31	
(thousands of Canadian Dollars)	**Note**	**2016**	**2015**
Earnings for the year		**2,406**	2,624
Other comprehensive income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [(1)]	10	**(1)**	37
Comprehensive income for the year		**2,405**	2,661

(1) Net of income taxes of $540 for the year ended December 31, 2016 (2015 - $(16,000)).

See accompanying Notes to Financial Statements.

BALANCE SHEET

(thousands of Canadian Dollars)	Note	December 31 2016	2015
ASSETS			
Current assets			
Short-term advances to parent company	20	**2,050**	–
Accounts receivable		**7,026**	5,946
Accounts receivable from parent and affiliate companies	20	**102**	77
Inventories		**637**	833
Prepaid expenses and other current assets		**45**	53
		9,860	6,909
Non-current assets			
Property, plant and equipment	7	**138,545**	129,590
Intangibles	8	**4,334**	4,595
Other assets		**514**	601
Total assets		**153,253**	141,695
LIABILITIES			
Current liabilities			
Bank indebtedness		**18**	868
Short-term advances from parent company	20	**–**	200
Accounts payable and accrued liabilities		**6,363**	5,338
Accounts payable to parent and affiliate companies	20	**2,549**	1,612
Long-term debt	9	**3,900**	–
		12,830	8,018
Non-current liabilities			
Deferred income tax liabilities	6	**6,449**	5,398
Retirement benefit obligations	10	**1,706**	1,658
Deferred revenues	11	**34,972**	35,230
Long-term debt	9	**60,000**	56,500
Total liabilities		**115,957**	106,804
EQUITY			
Class A and Class B share owner's equity			
Class A and Class B shares	12	**11,569**	11,569
Retained earnings		**25,727**	23,322
Total equity		**37,296**	34,891
Total liabilities and equity		**153,253**	141,695

See accompanying Notes to Financial Statements.

DIRECTOR

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian Dollars)	Note	Class A and Class B Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2014		11,569	23,061	–	34,630
Earnings for the year		–	2,624	–	2,624
Other comprehensive income		–		37	37
Gains on retirement benefits transferred to retained earnings	10	–	37	(37)	–
Dividends	12	–	(2,400)	–	(2,400)
December 31, 2015		11,569	23,322	–	34,891
Earnings for the year		–	**2,406**	–	**2,406**
Other comprehensive loss		–	–	**(1)**	**(1)**
Losses on retirement benefits transferred to retained earnings	10	–	**(1)**	**1**	–
December 31, 2016		**11,569**	**25,727**	–	**37,296**

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOW

(thousands of Canadian Dollars)	Note	Year Ended December 31 2016	2015
Operating activities			
Earnings for the year		**2,406**	2,624
Adjustments to reconcile earnings to cash flows from operating activities	13	**9,882**	9,253
Changes in non-cash working capital	13	**753**	(27)
Cash flows from operating activities		**13,041**	11,850
Investing activities			
Additions to property, plant and equipment		**(14,496)**	(11,624)
Additions to intangibles		**(122)**	(126)
Changes in non-cash working capital	13	**274**	1,202
Other		**134**	(332)
Cash flows used in investing activities		**(14,210)**	(10,880)
Financing activities			
Issue of long-term debt	9	**7,400**	750
Dividends paid to Class A and Class B share owner	12	–	(2,400)
Interest paid		**(3,131)**	(3,101)
Cash flows from (used in) financing activities		**4,269**	(4,751)
Increase (decrease) in cash position		**3,100**	(3,781)
Beginning of year		**(1,068)**	2,713
End of year	13	**2,032**	(1,068)

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Tabular amounts in thousands of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

The Yukon Electrical Company Limited is engaged in the generation, distribution and sale of electric energy in the Yukon and was incorporated under the laws of Canada and operates under the name ATCO Electric Yukon. Its registered office is at 100 - 1100 Front Street, Whitehorse, YT, Y1A 3T4. ATCO Electric Yukon is wholly owned by ATCO Electric Ltd. ATCO Electric is principally owned by CU Inc. which is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

In these financial statements, "the Company" means ATCO Electric Yukon.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

Management authorized these financial statements for issue on June 23, 2017.

BASIS OF MEASUREMENT

The financial statements are prepared on a historic cost basis, except for retirement benefit obligations which are carried at remeasured amounts. The Company's significant accounting policies are described in Note 21.

Certain comparative figures have been reclassified to conform to the current presentation.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 17.

3. ADJUSTED EARNINGS

ADJUSTED EARNINGS

Adjusted earnings are earnings after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares,
- one-time gains and losses,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of earnings used by the Chief Operating Decision Maker (CODM) to assess performance and allocate resources. Other accounts in the financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

	2016	2015
Adjusted earnings	**5,286**	2,816
Rate-regulated activities	**(2,880)**	(192)
Earnings for the year	**2,406**	2,624

Rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Company does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Company recognizes revenues in earnings when amounts are billed to customers consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meets the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Reserve for injuries and damages and deferred fuel variance.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, deferred fuel variance, deferred hearing cost, and future removal and site restoration costs.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2016	**2015**
Additional revenues billed in current period		
Reserve for injuries and damages [(1)]	**44**	205
Deferred fuel variance [(2)]	**-**	471
Deferred hearing costs [(3)]	**54**	-
Revenues to be billed in future periods		
Deferred income taxes [(4)]	**(2,347)**	(829)
Deferred study costs [(5)]	**(184)**	-
Future removal and site restoration costs [(6)]	**(156)**	(31)
Deferred hearing costs [(3)]	**-**	(26)
Other items	**(291)**	18
	(2,880)	(192)

(1) The reserve is based on an annual amount approved by the Yukon Utilities Board (YUB) to be collected through customer rates. Revenues are recorded when billed to customers. Reserve claims are expensed as actual costs are incurred.

(2) The deferred fuel price variance represents the difference in fuel costs approved by the YUB versus actual fuel costs. Recoveries from or refunds to customers of variances are expected to occur in the following year.

(3) The Company incurs hearing costs on an ongoing basis associated with regulatory proceedings. Revenues are recorded when billed to customers. Hearing costs are expensed as actual costs are incurred.

(4) Income taxes are billed to customers when paid by the Company.

(5) The deferral is based on an amount approved by the Yukon Utilities Board (YUB) to be collected through customer rates. Revenues are recorded when billed to customers. Study costs are expensed as actual costs are incurred.

(6) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

4. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities and goods and services such as professional fees, contractor costs, technology related expenses, advertising and other general and administrative expenses. 2016 other costs and expenses also include $362,000 related to a capital project that has been cancelled and written off due to disallowance by the Yukon Utilities Board.

5. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debt. The components of interest expense are summarized below.

	2016	**2015**
Long-term debt	**3,166**	3,114
Other	**8**	4
	3,174	3,118
Less: interest capitalized *(Note 7)*	**(169)**	(95)
	3,005	3,023

Borrowing costs capitalized to property, plant and equipment during 2016 were calculated by applying an interest rate of 4.92 per cent to expenditures on qualifying assets (2015 - 5.51 per cent).

6. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2016	2015
Deferred income tax expense		
Reversal of temporary differences	**1,046**	1,137
Adjustment in respect of prior years	**6**	–
	1,052	1,137

The reconciliation of statutory and effective income tax expense is as follows:

	2016		2015	
Earnings before income taxes	**3,458**	**%**	3,761	%
Income taxes, at statutory rates	**1,037**	**30.0**	1,128	30.0
Other	**15**	**0.4**	9	0.2
	1,052	**30.4**	1,137	30.2

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2014	5,100	614	(871)	(474)	(84)	4,285
Charge (credit) to earnings	954	(41)	56	6	162	1,137
Charge to other comprehensive income	–	–	–	16	(40)	(24)
December 31, 2015	6,054	573	(815)	(452)	38	5,398
Charge (credit) to earnings	**2,147**	**(9)**	**(1,039)**	**9**	**(56)**	**1,052**
Charge to other comprehensive income	–	–	–	**(1)**	–	**(1)**
December 31, 2016	**8,201**	**564**	**(1,854)**	**(444)**	**(18)**	**6,449**

The Company does not expect its deferred income tax liabilities to reverse within the next twelve months.

At the end of 2016, the Company had $6,200,000 of non-capital tax losses and credits which expire between 2033 and 2035. The Company recognized deferred income tax assets of $1,700,000 for losses and credits that expire.

7. PROPERTY, PLANT AND EQUIPMENT

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

	Distribution	Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2014	142,812	34,623	6,015	1,344	5,920	190,714
Additions	6,484	2,771	73	1,117	1,374	11,819
Retirements and disposals	(382)	(206)	(242)	–	(160)	(990)
December 31, 2015	148,914	37,188	5,846	2,461	7,134	201,543
Additions	**5,532**	**4,779**	**84**	**3,699**	**712**	**14,806**
Retirements and disposals	**(412)**	**(150)**	–	**(362)**	**(282)**	**(1,206)**
December 31, 2016	**154,034**	**41,817**	**5,930**	**5,798**	**7,564**	**215,143**
Accumulated depreciation						
December 31, 2014	51,415	9,728	2,121	–	4,551	67,815
Depreciation	3,456	1,151	58	–	463	5,128
Retirements and disposals	(382)	(206)	(242)	–	(160)	(990)
December 31, 2015	54,489	10,673	1,937	–	4,854	71,953
Depreciation	**3,611**	**1,169**	**144**	–	**565**	**5,489**
Retirements and disposals	**(412)**	**(150)**	–	–	**(282)**	**(844)**
December 31, 2016	**57,688**	**11,692**	**2,081**	–	**5,137**	**76,598**
Net book value						
December 31, 2015	94,425	26,515	3,909	2,461	2,280	129,590
December 31, 2016	**96,346**	**30,125**	**3,849**	**5,798**	**2,427**	**138,545**

The additions to property, plant and equipment included $169,000 of interest capitalized during construction for the year ended December 31, 2016 (2015 - $95,000).

8. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2014	2,562	1,451	2,597	6,610
Additions	–	126	–	126
Disposals	–	–	(49)	(49)
December 31, 2015	2,562	1,577	2,548	6,687
Additions	–	**122**	–	**122**
December 31, 2016	**2,562**	**1,699**	**2,548**	**6,809**
Accumulated amortization				
December 31, 2014	1,393	211	172	1,776
Amortization	209	24	132	365
Disposals	–	–	(49)	(49)
December 31, 2015	1,602	235	255	2,092
Amortization	**256**	**25**	**102**	**383**
December 31, 2016	**1,858**	**260**	**357**	**2,475**
Net book value				
December 31, 2015	960	1,342	2,293	4,595
December 31, 2016	**704**	**1,439**	**2,191**	**4,334**

9. LONG-TERM DEBT

Long-term debt is with the Company's parent. Long-term debt outstanding at December 31 is shown in the table below.

	Effective Interest Rate	2016	2015
Debentures - unsecured	5.340% (2015 - 5.542%)	**63,900**	56,500
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: amounts due within one year		**(3,900)**	–
		60,000	56,500

Debenture Issuances

During 2016, the Company issued $7,400,000 of 3.763 per cent debentures maturing on November 19, 2046 (2015 - $750,000 of 3.964 per cent debentures maturing on July 27, 2045).

10. RETIREMENT BENEFITS

The Company, together with Canadian Utilities Limited and its subsidiary companies, maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits, principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan.

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2016.

Information about the Company's participation in the group benefit plans is as follows:

		2016		2015
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**509**	**84**	583	89
Defined contribution plans cost	**290**	**–**	267	–
Total cost	**799**	**84**	850	89
Less: Capitalized	**222**	**24**	253	27
Net cost recognized	**577**	**60**	597	62
Accrued benefit obligations				
Beginning of year	230	1,428	233	1,430
Defined benefit plan cost	**509**	**84**	583	89
Benefit payments	**(6)**	**(36)**	(8)	(38)
Contributions to defined benefit plans	**(505)**	**–**	(578)	–
Actuarial losses (gains)	**2**	**–**	–	(53)
End of year	**230**	**1,476**	230	1,428

Weighted average assumptions

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation were as follows:

		2016		2015
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**4.10%**	**4.10%**	4.00%	4.00%
Average compensation increase for the year (1)	**1.50%**	**n/a**	3.25%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.90%**	**3.90%**	4.10%	4.10%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (2)	**n/a**	**5.57%**	n/a	5.70%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) The assumed average compensation increase is 1.50 per cent for 2016 to 2018 and 2.50 per cent thereafter.

(2) The Company uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

Defined benefit plan funding

An actuarial valuation for funding purposes as of December 31, 2015 was completed in 2016 for the registered defined benefit pension plans. The estimated contribution for 2017 is $505,000. The next actuarial valuation for funding purposes must be completed as of December 31, 2018.

11. DEFERRED REVENUES

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2016	2015
Beginning of year	35,230	35,521
Receipt of customer contributions	**1,241**	1,169
Amortization	**(1,499)**	(1,460)
End of year	**34,972**	35,230

12. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2016 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2015 and 2016	**1,686**	**7,179**	**1,023**	**4,390**	**2,709**	**11,569**

Class A and B shares have no par value.

The Company did not declare dividends during 2016 (2015 - $855.94 per Class A non-voting share and Class B common share). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

13. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	2016	2015
Depreciation and amortization	**5,731**	5,392
Income taxes	**1,052**	1,137
Contributions by utility customers for extensions to plant	**1,241**	1,169
Amortization of customer contributions	**(1,499)**	(1,460)
Net finance costs	**2,953**	2,945
Other	**404**	70
	9,882	9,253

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2016	2015
Operating activities		
Accounts receivable	**(1,079)**	661
Accounts receivable to parent and affiliate companies	**(24)**	47
Inventories	**195**	182
Prepaid expenses and other current assets	**7**	(13)
Accounts payable and accrued liabilities	**751**	(745)
Accounts payable to parent and affiliate companies	**903**	(159)
	753	(27)
Investing activities		
Inventories	**–**	1,314
Accounts payable and accrued liabilities	**274**	(112)
	274	1,202

CASH POSITION

Cash position in the statement of cash flows at December 31 is comprised of:

	2016	2015
Short-term advances to parent company	**2,050**	–
Bank indebtedness	**(18)**	(868)
Short-term advances from parent company	**–**	(200)
	2,032	(1,068)

14. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Short-term advances to parent company, accounts receivable, accounts receivable from parent and affiliate companies, bank indebtedness, short-term advances from parent company, accounts payable and accrued liabilities and accounts payable to parent and affiliate companies	Assumed to approximate carrying value due to their short-term nature.
Long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the Company's financial instruments measured at amortized cost are as follows:

		2016		2015	
Recurring Measurements	**Note**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Liabilities					
Long-term debt	9	**63,900**	**72,687**	56,500	64,456

15. RISK MANAGEMENT

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments: credit risk and liquidity risk. The Company's Board is responsible for understanding the principal risks of the Company's business, achieving a proper balance between risks incurred and the potential return to the share owner, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board reviews significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company's ability to achieve its strategic or operational targets. The Board is responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

CREDIT RISK

Credit risk is the risk of financial loss due to counterparties inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents and accounts receivable and accounts receivable from parent and affiliate companies. The exposure to credit risk represents the total carrying amount of these financial instruments in the balance sheet.

The Company manages its credit risk on cash and cash equivalents by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. The provision for impairment of credit losses was $34,000 in 2016 (2015 - $25,000). The Company is able to collect an estimate for doubtful accounts through customer rates.

The aging analysis of trade receivables that are past due but not impaired at December 31 is as follows:

	2016	2015
30 to 90 days	**275**	310
Greater than 90 days	**19**	25
	294	335

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt and Class A and B shares. Short term advances from the parent company provide flexibility in the timing and amounts of long term financing.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2016, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2017	2018	2019	2020	2021	2022 and thereafter
Bank indebtedness	18	–	–	–	–	–
Accounts payable and accrued liabilities	6,363	–	–	–	–	–
Accounts payable to parent and affiliate companies	2,549	–	–	–	–	–
Long-term debt:						
Principal	3,900	–	5,500	1,500	–	53,000
Interest expense	3,386	3,170	3,000	2,791	2,629	45,893
	16,216	3,170	8,500	4,291	2,629	98,893

16. CAPITAL DISCLOSURES

The Company’s objective when managing capital is to remain within the capital structure approved by the YUB. The YUB-approved equity ratio was 40.0 per cent (2015 - 40.0 per cent) and the Company is capitalized consistent with the YUB-approved capital structure. The capitalization involves the use of long term debt and preferred share financings.

The Company includes share owner’s equity, preferred shares, and long term debt, as adjusted in accordance with the Financial Accounting Standards Board (FASB) standards (see Note 3), in its determination of capitalization. In maintaining or adjusting its capital structure, the Company may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, and long-term debt.

17. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments and estimates made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company’s overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution electricity. The estimate is derived from unbilled electricity supplied to customers. This estimate is from the date of the last meter reading and uses historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 10.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

18. CONTINGENCIES

Measurement inaccuracies occur from time to time on the Company's electricity metering facilities. These measurement adjustments are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The YUB may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate.

The Company is party to a number of other disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the financial statements.

19. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, the Company has entered into a number of operating leases, operating and maintenance agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2017	2018	2019	2020	2021	2022 and thereafter
Purchase obligations:						
Operating and Maintenance Agreements	235	–	–	–	–	–
Capital expenditures	976	–	–	–	–	–
Other	362	–	–	–	–	–
	1,573	–	–	–	–	–

20. RELATED PARTY TRANSACTIONS

FINANCIAL INFORMATION

During the year, the Company entered into the following transactions with related parties:

Entity	Relationship	Transaction	Recorded As	2016	2015
ATCO Electric	Parent	Administration and Finance	Other Expenses	**611**	873
		Metering and Materials Management	Other Expenses	**98**	149
		Customer Care and Billing	Other Expenses	**87**	72
		Inventory and Asset Management Services	Revenue	–	25
		Human Resources	Other Expenses	**38**	–
ATCO Gas	Affiliate	Metering Services	Other Expenses	**19**	23
		Office Services	Other Expenses	**8**	6
ATCO Structures & Logistics	Affiliate	Building rent	Revenues	**23**	23

Affiliate companies are subsidiaries of the Company's parent or ultimate parent.

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

RELATED PARTY LOANS AND BALANCES

Short-term advances are obtained in the normal course of business and are generally due within 30 days or less from the date of the transaction. The interest rates are based on the Bank of Canada overnight rate plus an applicable spread.

Payable and receivables due to/from related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

21. ACCOUNTING POLICIES

RATE REGULATION

The Company is regulated by the YUB. The YUB administers acts and regulations covering matters such as rates, financing and service area.

REVENUE RECOGNITION

Revenues from the regulated sale of electricity are recognized based on YUB-approved revenue requirement (cost of service) and include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the electricity to customers and include an estimate of usage not yet billed. Fixed charges are based on the service provided during the period.

Certain additions to property, plant and equipment are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of electricity, they are classified as deferred revenues and are recognized in revenues over the life of the related asset.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

FRANCHISE FEES

Municipal governments charge franchise fees to the Company in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in other comprehensive income (OCI) or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

CASH

Cash consist of cash at bank less outstanding cheques.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, and contracted services. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	15 to 75 years	42 years	2.4%
Electricity distribution equipment	26 to 103 years	33 years	3.0%
Buildings	40 years	38 years	2.6%
Other plant, equipment and machinery	5 to 50 years	17 years	5.8%

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 60 and 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

PROVISIONS

The Company recognizes provisions when:

- (i) there is a current legal or constructive obligation as a result of a past event,
- (ii) a probable outflow of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

FINANCIAL INSTRUMENTS

The Company classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

- (i) held for the purpose of collecting contractual cash flows, and
- (ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the registered defined benefit plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2015.

The minimum funding requirements for the Group Plan are comprised of the contributions related to current service cost and the amortization of the unfunded liability as determined by the actuary. The Company does not have any liability to the Group Plan other than the minimum funding requirements of its subsidiaries. In the event of a withdrawal from the Group Plan or the termination of the Group Plan, the companies will still be required to contribute to the Group Plan where such contributions are required under pension regulations.

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in other post-employment benefits (OPEB) plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of age at retirement and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

For the OPEB plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation rates, used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For the OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of retirement benefits for registered defined benefit pension plans and defined contribution pension plans is recognized as an expense in salaries, wages and benefits. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets between entities under common control are measured at the carrying amount.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. Standards issued, but not yet effective, which the Company anticipates may have a material effect on the financial statements or note disclosures are described below.

Standard	Description	Effective Date
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 18 *Revenue* and related interpretations. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company is party to numerous contracts with customers that will be impacted by the new standard. The Company has established a working group to review the adoption of IFRS 15 and education sessions have been, and will continue to be, provided for employees, senior management and the Audit Committee to increase knowledge, awareness and impacts of the standard. Positions papers on issue-specific differences in the new standard are substantially complete and are in discussion with the Company's external auditor. Under IFRS 15, the timing of revenue recognition for certain contracts may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company is currently evaluating the impact of the new standard on financial reporting computer systems and internal controls over financial reporting.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 16 *Leases*	This standard replaces IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The Company has developed a detailed project plan to review and implement the new standard and a working group has been formed to assess its impact.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.
IFRS 9 (2014) Financial Instruments	This final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments. The Company is currently reviewing the impact of the new standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.