



**THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015



April 27, 2016

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, 2015 and the statements of earnings, comprehensive income, changes in equity and cash flows 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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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, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
STATEMENT OF EARNINGS

		Year Ended December 31	
<i>(thousands of Canadian Dollars)</i>	Note	2015	2014
Revenues	6	59,856	60,917
Costs and expenses			
Purchased power		30,446	31,177
Fuel costs		5,475	7,405
Salaries, wages and benefits		6,055	5,947
Plant and equipment maintenance		2,500	2,810
Depreciation and amortization		5,392	4,818
Other	7	3,282	3,867
		53,150	56,024
Operating profit		6,706	4,893
Interest income		78	1
Interest expense	13	(3,023)	(2,717)
Net finance costs		(2,945)	(2,716)
Earnings before income taxes		3,761	2,177
Income taxes	8	(1,137)	(667)
Earnings for the year		2,624	1,510

See accompanying Notes to Financial Statements.

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
STATEMENT OF COMPREHENSIVE INCOME

<i>(thousands of Canadian Dollars)</i>	Note	Year Ended December 31	
		2015	2014
Earnings for the year		2,624	1,510
Other comprehensive income (loss), net of income taxes:			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits ⁽¹⁾	20	37	(128)
		37	(128)
Comprehensive income for the year		2,661	1,382

⁽¹⁾ Net of income taxes of (\$16,000) for the year ended December 31, 2015 (2014 – \$55,000).

See accompanying Notes to Financial Statements.

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
BALANCE SHEET

		December 31		
<i>(thousands of Canadian Dollars)</i>		Note	2015	2014
ASSETS				
Current assets				
Cash			-	213
Short-term advances to parent company			-	2,500
Accounts receivable			5,946	6,607
Inventories	9		833	2,328
Prepaid expenses			53	40
			6,832	11,688
Non-current assets				
Property, plant and equipment	10		129,590	122,899
Intangibles	11		4,595	4,834
Market differential loans			601	235
Total assets			141,618	139,656
LIABILITIES				
Current liabilities				
Bank indebtedness	12		868	-
Short-term advances from parent company	12		200	-
Accounts payable and accrued liabilities			5,338	6,155
Owing to parent and affiliate companies			1,535	1,652
			7,941	7,807
Non-current liabilities				
Deferred income tax liabilities	8		5,398	4,285
Retirement benefit obligations	20		1,658	1,663
Long-term debt	13		56,500	55,750
Deferred revenues	14		35,230	35,521
Total liabilities			106,727	105,026
EQUITY				
Class A and Class B share owner's equity				
Class A and Class B shares	17		11,569	11,569
Retained earnings			23,322	23,061
Total equity			34,891	34,630
Total liabilities and equity			141,618	139,656

See accompanying Notes to Financial Statements.

DIRECTOR

DIRECTOR

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
STATEMENT OF CHANGES IN EQUITY

<i>(thousands of Canadian Dollars)</i>	Note	Class A and Class B Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2013		9,519	21,679	-	31,198
Earnings for the year		-	1,510	-	1,510
Shares issued	17	2,050	-	-	2,050
Other comprehensive income		-	-	(128)	(128)
Losses on retirement benefit obligations transferred to retained earnings	20	-	(128)	128	-
December 31, 2014		11,569	23,061	-	34,630
Earnings for the year		-	2,624	-	2,624
Dividends on Class A and Class B shares		-	(2,400)	-	(2,400)
Other comprehensive loss		-	-	37	37
Gains on retirement benefit obligations transferred to retained earnings	20	-	37	(37)	-
December 31, 2015		11,569	23,322	-	34,891

See accompanying Notes to Financial Statements.

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
STATEMENT OF CASH FLOWS

		Year Ended December 31	
<i>(thousands of Canadian Dollars)</i>	Note	2015	2014
Operating activities			
Earnings for the year		2,624	1,510
Adjustments for:			
Depreciation and amortization	10,11	5,392	4,818
Income taxes	8	1,137	667
Contributions by utility customers for extensions to plant	14	1,169	1,544
Amortization of customer contributions	14	(1,460)	(1,459)
Net finance costs		2,945	2,716
Interest received, net of interest paid		21	12
Other		49	7
		11,877	9,815
Changes in non-cash working capital	21	(27)	2,450
Cash flow from operations		11,850	12,265
Investing activities			
Additions to property, plant and equipment	10	(11,624)	(16,374)
Additions to intangibles	11	(126)	(376)
Changes in non-cash working capital	21	1,202	(410)
Other		(332)	21
		(10,880)	(17,139)
Financing activities			
Issue of long-term debt	13	750	7,900
Repayment of long-term debt	13	-	(500)
Interest paid		(3,101)	(2,802)
Issue of Class A and Class B shares	17	-	2,050
Dividends paid to Class A and Class B share owner		(2,400)	-
		(4,751)	6,648
Cash position ⁽¹⁾			
(Decrease) / increase		(3,781)	1,774
Beginning of year		2,713	939
End of year		(1,068)	2,713

⁽¹⁾ Cash position includes cash, short-term advances to parent company, bank indebtedness and short-term advances from parent company.

See accompanying Notes to Financial Statements.

THE YUKON ELECTRICAL COMPANY LIMITED
(o/a ATCO ELECTRIC YUKON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

1. THE COMPANY AND ITS OPERATIONS

The Yukon Electrical Company Limited (the Company) 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. The Company is wholly owned by ATCO Electric Ltd. ATCO Electric Ltd. 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.

The Company is engaged in the generation, distribution and sale of electric energy in the Yukon.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The financial statements have been 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 April 27, 2016.

BASIS OF MEASUREMENT

The financial statements are prepared on a historic cost basis, except for defined benefit pension and other employee retirement benefit liabilities as disclosed in the applicable accounting policies.

3. ACCOUNTING POLICIES

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Company adopted IFRS 9 (2013) *Financial Instruments* effective January 1, 2015. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and additional guidance on general hedge accounting.

Previously, the Company classified financial assets when they were first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Under IFRS 9 (2013), the Company classifies financial assets under the same two measurement categories as financial liabilities; amortized cost or fair value through profit and loss. All of the Company's financial assets and financial liabilities will continue to be classified and measured at amortized cost. The adoption of this standard has not resulted in any changes to comparative figures.

RATE REGULATION

The Company is regulated primarily by the Yukon Utilities Board (YUB). The YUB administers acts and regulations covering such matters as rates, financing and service area.

In the absence of a rate-regulated standard under IFRS that the Company is eligible to adopt, 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 (see revenue recognition accounting policy below).

Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

ADJUSTED EARNINGS

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Company's management to evaluate the performance of the Company. The Company's management assesses performance of operations principally on the basis of earnings adjusted for regulatory items as shown in the adjusted information disclosed in Note 5.

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.

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 jurisdiction 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 are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

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.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less, which do not enhance or extend the useful life of the asset, are expensed when incurred.

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 Depreciation Rate
Distribution equipment	15 to 75 years	2.4%
Generation equipment	26 to 103 years	3.2%
Buildings	40 years	1.1%
Other	5 to 50 years	5.5%

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 AND CONTINGENCIES

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.

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 rate 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 is presented net of transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 its ultimate parent company, Canadian Utilities Limited, and its affiliate companies, in a registered group defined benefit pension plan. The assets of the defined benefit pension 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 defined benefit pension plan as a defined contribution plan whereby contributions are expensed as paid.

The Company participates, together with its ultimate parent company, Canadian Utilities Limited, and its affiliate companies, in another post-employment benefit (OPEB) plan. This plan is administered on a combined basis, and the Company accrues for its obligations under this plan. 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.

Gains and losses resulting from experience adjustments and changes in assumptions 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 plan are expensed as employees render service.

For the defined benefit pension plan and OPEB plan, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of the defined contribution pension plan is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment. 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.

FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Canadian dollars. Transactions denominated in foreign currencies are translated at the exchange rate at the transaction date.

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	Impact	Effective Date
IFRS 9 (2014) <i>Financial Instruments</i>	This final standard replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i> 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 has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 15 <i>Revenue from Contracts with Customers</i>	This standard replaces previous guidance on revenue recognition. 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 has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 16 <i>Leases</i>	This standard replaces IAS 17 <i>Leases</i> 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 not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

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 the YUB. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. 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.

When tax legislation is subject to interpretation, management periodically evaluates positions take in tax filings 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, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated sale of 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 determined based on current facts and past experience taking into account the anticipated physical life of the asset, current and forecast demand, 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 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

Costs for the non-registered defined benefit pension and OPEB plans are determined using the projected unit credit method and reflect management's best estimates of investment returns, long-term inflation rate, wage and salary increases, age at retirement, liability discount rates 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. Key assumptions used to determine benefit cost and obligation are shown in Note 20.

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.

5. ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class A and Class B share owners of the Company after adjusting for the timing of revenues and expenses for rate-regulated activities. Adjusted earnings also exclude 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 2015 and 2014 years is shown below.

	2015	2014
Adjusted earnings for the year	2,816	2,728
Rate-regulated activities	(192)	(1,218)
Earnings for the year	2,624	1,510

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

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. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company. Therefore, the Company presents adjusted earnings on this basis.

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

Rate-Regulated Accounting Treatment	IFRS Treatment
1. 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. 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.
3. The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.

Timing adjustments for rate-regulated activities are as follows:

	2015	2014
Additional revenues billed in current period:		
Reserve for injuries and damages ⁽¹⁾	205	433
Other	18	404
	223	837
Revenues to be billed in future period:		
Deferred income taxes ⁽²⁾	(829)	(1,019)
Deferred fuel variance ⁽³⁾	471	(542)
Future removal and site restoration costs ⁽⁴⁾	(31)	(338)
Deferred hearing costs ⁽⁵⁾	(26)	(156)
	(415)	(2,055)
	(192)	(1,218)

Descriptions of the adjustments and the timing of recovery or refund for each are as follows:

Description	Timing of Recovery or Refund
(1) The YUB has approved the use of a reserve for injuries and damages as a means of self-insurance. The reserve is established based on an annual amount approved by the YUB to be collected through customer rates. Revenues are recorded when billed to customers. Reserve claims are expensed as actual costs are incurred.	Differences between revenues received and costs incurred to date will reverse in future periods as reserve amounts are billed to customers or actual costs are incurred.
(2) Deferred income taxes are a non-cash expense resulting from on temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred taxes are not billed to customers unless directed to do so by the YUB. Under rate regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.

Description	Timing of Recovery or Refund
(3) An annual forecast of fuel costs is approved by the YUB to be collected through customer rates. The deferred fuel price variance represents the difference in costs from YUB approved fuel prices versus actual fuel prices. Revenues are recorded when billed to customers. Fuel costs are expensed as actual costs are incurred.	Recoveries from or refund to customers of variances between revenues received and costs incurred to date are expected to occur in the following year.
(4) The future removal and site restoration costs billed to customers are the costs forecasted to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
(5) The Company incurs hearing costs on an ongoing basis associated with regulatory proceedings. A forecast of annual hearing costs is approved by the YUB to be collected through customer rates. Revenues are recorded when billed to customers. Hearing costs are expensed as actual costs are incurred.	Differences between revenues received and costs incurred to date will reverse in future periods as future amounts are billed to customers or actual costs are incurred.

6. REVENUES

The components of revenues are as follows:

	2015	2014
Tariff revenue	56,958	57,655
Amortization of customer contributions	1,460	1,459
Other	1,438	1,803
	59,856	60,917

7. OTHER COSTS AND EXPENSES

Other costs and expenses comprise of the following:

	2015	2014
Goods and services ⁽¹⁾	3,026	3,616
Property and other taxes	256	251
	3,282	3,867

⁽¹⁾ Goods and services include professional fees, contractor costs, technology related expenses, communications, and other general and administrative expenses.

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below:

	2015	2014
Deferred income tax expense:		
Reversal of temporary differences	1,137	667

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

	2015		2014	
Earnings before income taxes	3,761	%	2,177	%
Income taxes, at statutory rates	1,128	30.0	653	30.0
Other	9	0.2	14	0.7
	1,137	30.2	667	30.7

The combined federal and Yukon statutory Canadian income tax rate did not change from 2014 to 2015.

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities were as follows:

	Property, Plant and Equipment	Intangibles	Retirement Benefit Obligations	Other	Total
Deferred income tax liabilities:					
December 31, 2013	4,095	635	(432)	(625)	3,673
Charge (credit) to earnings	1,005	(21)	13	(330)	667
Charge to other comprehensive income	-	-	(55)	-	(55)
December 31, 2014	5,100	614	(474)	(955)	4,285
Charge (credit) to earnings	954	(41)	6	218	1,137
Credit to other comprehensive income	-	-	16	-	16
Other	-	-	-	(40)	(40)
December 31, 2015	6,054	573	(452)	(777)	5,398

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

At the balance sheet date, the Company had \$2,717,177 in tax losses and credits, which, if unused, expire on the following dates:

	Non-Capital Losses
2034	1,508
2033	1,209

The Company recorded deferred income tax assets of \$846,000 for these losses and credits.

9. INVENTORIES

Inventories at December 31 were comprised of:

	2015	2014
Raw materials and consumables	833	2,328

For the year ended December 31, 2015, inventories recognized as an expense were \$192,000 (2014 – \$154,000). There have been no write-downs to net realizable value and there have been no reversals of previous write-downs to net realizable value.

No inventories are pledged as security for liabilities.

10. 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, 2013	136,740	25,830	5,089	3,286	5,448	176,393
Additions	7,295	9,639	926	(1,942)	717	16,635
Disposals	(1,223)	(846)	-	-	(245)	(2,314)
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
Disposals	(382)	(206)	(242)	-	(160)	(990)
December 31, 2015	148,914	37,188	5,846	2,461	7,134	201,543
Accumulated depreciation:						
December 31, 2013	49,487	9,624	2,088	-	4,393	65,592
Depreciation	3,151	950	33	-	403	4,537
Disposals	(1,223)	(846)	-	-	(245)	(2,314)
December 31, 2014	51,415	9,728	2,121	-	4,551	67,815
Depreciation	3,456	1,151	58	-	463	5,128
Disposals	(382)	(206)	(242)	-	(160)	(990)
December 31, 2015	54,489	10,673	1,937	-	4,854	71,953
Net book value:						
December 31, 2014	91,397	24,895	3,894	1,344	1,369	122,899
December 31, 2015	94,425	26,515	3,909	2,461	2,280	129,590

The additions of property, plant and equipment included \$95,000 (2014 – \$191,000) of interest capitalized at an interest rate of 5.51% (2014 – 5.09%).

11. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment, land rights, and goodwill.

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

	Computer Software	Land Rights	Other	Total
Cost:				
December 31, 2013	2,261	1,379	2,594	6,234
Additions	301	72	3	376
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
Accumulated amortization:				
December 31, 2013	1,154	191	80	1,425
Amortization	239	20	92	351
December 31, 2014	1,393	211	172	1,776
Amortization	209	24	132	365
Disposals	-	-	(49)	(49)
At December 31, 2015	1,602	235	255	2,092
Net book value:				
December 31, 2014	1,169	1,240	2,425	4,834
December 31, 2015	960	1,342	2,293	4,595

12. BANK INDEBTEDNESS AND SHORT TERM ADVANCES FROM PARENT COMPANY

At December 31, 2015, bank indebtedness consists of \$868,000 (2014 – nil), which represents cheques outstanding in excess of cash in bank. In 2015 this rate was 1.0% (2014 – 1.5%).

Short term advances from parent company are payable upon demand and bear interest based on short term Bankers' Acceptance rates.

13. LONG TERM DEBT (UNSECURED)

LONG-TERM DEBT

Long-term debt outstanding is shown in the table below.

	2015	2014
Debentures (due to ATCO Electric Ltd.) – unsecured		
2002 Series 6.21% debenture due November 2017	3,900	3,900
2004 Series 5.47% debenture due January 2019	1,000	1,000
1999 Series 6.85% debenture due August 2019	4,500	4,500
1990 Series 11.91% debenture due November 2020	1,500	1,500
1992 Series 9.51% debenture due May 2023	2,500	2,500
2009 Series 6.28% debenture due March 2024	2,900	2,900
2008 Series 5.61% debenture due May 2028	860	860
2005 Series 5.23% debenture due November 2035	4,300	4,300
2006 Series 5.07% debenture due November 2036	3,000	3,000
2008 Series 5.62% debenture due May 2038	1,290	1,290
2009 Series 6.55% debenture due March 2039	3,700	3,700
2011 Series 4.58% debenture due October 2041	5,000	5,000
2013 Series 4.761% debenture due September 2043	9,400	9,400
2014 Series 4.12% debenture due September 2044	7,900	7,900
2012 Series 3.89% debenture due November 2052	4,000	4,000
2015 Series 4.00% debenture due July 2045	750	-
Long-term debt	56,500	55,750

CONTRACTUAL MATURITIES OF DEBT

The undiscounted contractual maturities of long-term debt are as follows:

	Principal	Interest
2016	-	3,131
2017	3,900	3,010
2018	-	2,889
2019	5,500	2,708
2020	1,500	2,437
2021 and thereafter	45,600	39,840
	56,500	54,015

INTEREST EXPENSE

Interest expense is as follows:

	2015	2014
Long-term debt	3,114	2,903
Other	4	5
	3,118	2,908
Less: Interest capitalized (Note 10)	(95)	(191)
	3,023	2,717

14. DEFERRED REVENUES

CUSTOMER CONTRIBUTIONS

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

	2015	2014
Beginning of year	35,521	35,436
Receipt of customer contributions	1,169	1,544
Amortization	(1,460)	(1,459)
End of year	35,230	35,521

15. CONTINGENCIES

Measurement inaccuracies occur from time to time on the Company's 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.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments. These risks are comprised of credit risk and liquidity risk. The Company's Board of Directors (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 share owners, 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.

CREDIT RISK

For cash and accounts receivable, credit risk represents the carrying amount on the balance sheet.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The Company is also able to recover an estimate for doubtful accounts through approved customer rates.

The maximum exposure to credit risk is the carrying value of loans and receivables. The Company does not have a concentration of credit risk with any counterparty. Substantially all of the loans and receivables are from the Company's operations in the Yukon.

Accounts receivable are non-interest bearing and are generally due in 30 days. The provision for impairment of credit losses was \$25,000 at December 31, 2015 (2014 – \$21,000).

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

	2015	2014
30 to 90 days	310	271
Greater than 90 days	25	21
	335	292

No other impairments have been identified within accounts receivable.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of long-term debt borrowings from the parent company and issuance of Class A and B shares. The Company has a policy not to invest any of its cash balances in asset backed securities.

The Company has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

	2016	2017	2018	2019	2020	2021 and thereafter
Bank indebtedness	868	-	-	-	-	-
Short term advances from parent company	200	-	-	-	-	-
Accounts payable and accrued liabilities	5,338	-	-	-	-	-
Owing to parent and affiliate companies	1,535	-	-	-	-	-
Long-term debt (Note 12)	-	3,900	-	5,500	1,500	45,600
Interest expense (Note 12)	3,131	3,010	2,889	2,708	2,437	39,840
Purchase obligations:						
Capital expenditures	1,944	-	-	-	-	-
	13,016	6,910	2,889	8,208	3,937	85,440

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, short term advances to parent and affiliate companies, accounts payable and accrued liabilities, short term advances from affiliate companies, bank indebtedness and owing to parent and affiliate companies approximates carrying value due to the short term nature of the financial instruments.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities				
Amortized cost:				
Long-term debt ⁽¹⁾	56,500	64,456	55,750	66,087

⁽¹⁾ Recorded at amortized cost. Fair values are 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.

17. CLASS A AND CLASS B SHARES

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2014	1,686	7,179	1,023	4,390	2,709	11,569
December 31, 2015	1,686	7,179	1,023	4,390	2,709	11,569

18. DIVIDENDS

Cash dividends declared per share for all series and classes of common shares are as follows:

	2015	2014
	<i>(dollars per share)</i>	
Class A Non-Voting Shares	855.94	-
Class B Common Shares	855.94	-

The payment of dividends on the Company's Class A and Class B shares is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

19. 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% (2014 – 40%) and the Company is capitalized consistent with the YUB-approved capital structure.

The Company includes share owner's equity and long-term debt, as adjusted in accordance with the FASB standards (see Note 5), in its determination of capitalization. In maintaining or adjusting its capital structure, the Company may adjust the amount of dividends paid to the share owners, issue or purchase Class A and Class B shares, and issue or redeem long-term debt.

20. RETIREMENT BENEFITS

The Company, together with its ultimate parent, Canadian Utilities Limited, and affiliate 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.

Contributions to the defined benefit pension plan, which is accounted for as a defined contribution pension plan, are expensed as paid. The OPEB plan, which the Company funds out of general revenues, is administered on a combined basis with Canadian Utilities Limited and its subsidiary companies. For OPEB, the accrued liabilities and costs are determined on a Company-by-Company basis.

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

	2015		2014	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Components of benefit plan cost:				
Defined benefit plans cost	578	89	902	81
Defined contribution plans cost	267	-	242	-
Total cost	845	89	1,144	81
Less: Capitalized	253	27	344	24
Net costs recognized	592	62	800	57
Accrued benefit obligations:				
Beginning of year	233	1,430	220	1,219
Defined benefit plan cost	578	89	902	81
Contributions to defined benefit plans	(581)	(38)	(912)	(30)
Losses (gains) on accrued benefit obligations	-	(53)	23	160
End of year	230	1,428	233	1,430

Weighted average assumptions

	2015		2014	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Assumptions regarding benefit plan cost:				
Discount rate for the year	4.00%	4.00%	4.90%	4.90%
Average compensation increase for the year	3.25%	n/a	3.25%	n/a
Assumptions regarding accrued benefit obligations:				
Discount rate at December 31	4.10%	4.10%	4.00%	4.00%
Long-term inflation rate	2.00%	n/a	2.00%	n/a
Health care cost trend rate:				
Drug costs ⁽¹⁾	n/a	5.70%	n/a	5.83%
Other medical costs	n/a	4.50%	n/a	4.50%
Dental costs	n/a	4.00%	n/a	4.00%

⁽¹⁾ The Company uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

FUNDING

Employees contribute a percentage of their salary to registered pension plans. The Company contributes its share of contributions for the defined contribution pension plans. The Company also provides the balance of the funding necessary to ensure that benefits will be fully provided for the defined benefit pension plans.

In 2014, an actuarial valuation for funding purposes as of December 31, 2013 was completed for the registered defined benefit pension plans. In 2016 the Company expects to complete a new actuarial valuation for funding purposes as of December 31, 2015.

The YUB has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Company includes the cost of funding in its rate applications to the YUB.

CANADIAN UTILITIES LIMITED BENEFIT PLANS

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, 2015.

21. CHANGES IN NON-CASH WORKING CAPITAL

	2015	2014
Operating activities, changes related to:		
Accounts receivable	661	1,033
Owing from parent and affiliate companies	-	926
Inventories	182	(25)
Prepaid expenses	(13)	75
Accounts payable and accrued liabilities	(745)	(1,128)
Owing to parent and affiliate companies	(112)	1,569
	(27)	2,450
Investing activities, changes related to:		
Inventories	1,314	(228)
Accounts payable and accrued liabilities	(112)	(182)
	1,202	(410)

22. RELATED PARTY TRANSACTIONS

Entity	Relationship	Transaction	Recorded as	2015	2014
ATCO Electric	Parent	Administrative, financial management, materials management, and meter reading services	Other expenses	1,094	1,019
		Inventory and asset management services	Revenues	25	-
ATCO Structures & Logistics	Affiliate	Building rent	Revenues	23	28
ATCO Gas	Affiliate	Metering services	Other expenses	29	23
ATCO Itek	Affiliate	Computer services	Other expenses	-	250
			Property, plant and equipment	-	23
ATCO Itek Business Services	Affiliate	Customer billing and call center services	Other expenses	-	580
			Property, plant and equipment	-	160

All of the above transactions are considered to be in the normal course of business and are measured at the exchange amount being the amount of consideration established and agreed to by the related parties.

Receivables and payables with 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.