

Yukon Energy Corporation

Financial Statements

December 31, 2017

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Yukon Energy Corporation

Financial Statements

December 31, 2017

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

As at	December 31 2017	December 31 2016
Assets		
Current		
Cash	\$ -	\$ 551
Accounts receivable (Note 5)	12,427	5,873
Inventories (Note 6)	3,782	3,597
Prepaid expenses	678	754
	16,887	10,775
Non-current		
Property, plant and equipment (Note 7)	448,444	444,354
Intangible assets (Note 8)	8,476	7,281
Total assets	473,807	462,410
Regulatory deferral account debit balances (Note 9)	25,738	27,880
Total assets and regulatory deferral account debit balances	\$ 499,545	\$ 490,290
Liabilities		
Current		
Bank indebtedness (Note 10)	\$ 7,054	\$ -
Accounts payable and accrued liabilities (Note 11)	10,845	8,535
Construction financing (Note 12)	22,385	22,385
Derivative related liability (Note 24)	56	409
Current portion of long-term debt (Note 13)	5,248	5,238
	45,588	36,567
Non-current		
Post-employment benefits (Note 14)	6,116	5,867
Contributions in aid of construction (Note 15)	168,988	172,770
Decommissioning fund (Note 16)	2,665	2,636
Long-term debt (Note 13)	142,523	147,771
Total liabilities	365,880	365,611
Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued and fully paid: 3,900 shares	39,000	39,000
Contributed surplus	14,600	14,600
Retained earnings	61,075	51,034
Total equity	114,675	104,634
Total liabilities and equity	480,555	470,245
Regulatory deferral account credit balances (Note 9)	18,990	20,045
Total liabilities, equity and regulatory deferral account credit balances	\$ 499,545	\$ 490,290

Commitments and Contingencies (Notes 20 and 21)

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

Approved by the Board

_____, Chair

_____, Director

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

For the year ended December 31	2017	2016
Revenues		
Sales of power (Note 17)	\$ 48,789	\$ 40,013
Funding from parent (Note 20)	565	825
Other	369	287
	49,723	\$ 41,125
Operating expenses		
Operations and maintenance (Note 18)	18,212	19,322
Administration (Note 19)	10,712	11,923
Depreciation and amortization (Notes 7 and 8)	12,662	11,262
	41,586	42,507
(Loss) Income from operations	8,137	(1,382)
Other income		
Allowance for funds used during construction	466	819
Amortization of contributions in aid of construction (Note 15)	4,116	4,102
Unrealized gain on interest rate swap (Note 24)	353	144
	4,935	5,065
Other expenses		
Interest on borrowings	4,303	3,536
	4,303	3,536
Net income for the year before net movements in regulatory deferral account balances	8,769	147
Net movement in regulatory deferral account balances related to net income (Note 9 (d))	1,520	7,908
Net income for the year and net movements in regulatory deferral account balances	10,289	8,055
Other Comprehensive Income (Note 3 (o))		
Item that will not be reclassified to net income in subsequent periods		
Re-measurement of defined benefit pension plans (Note 14)	(248)	(483)
Total comprehensive income for the year	\$ 10,041	\$ 7,572

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

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

	Share Capital Number of shares	\$	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2015	3,900	\$ 39,000	\$ 14,600	\$ 46,303	-	\$ 99,903
Net income for the year and net movement in regulatory deferral account balances	-	-	-	8,055	-	8,055
Other comprehensive income	-	-	-	-	(483)	(483)
Transfer of re-measurement of defined benefit pension plans to retained earnings	-	-	-	(483)	483	-
Dividends	-	-	-	(2,841)	-	(2,841)
Balance at December 31, 2016	3,900	\$ 39,000	\$ 14,600	\$ 51,034	-	\$ 104,634
Net income for the year and net movement in regulatory deferral account balances	-	-	-	10,289	-	10,289
Other comprehensive income	-	-	-	-	(248)	(248)
Transfer of re-measurement of defined benefit pension plans to retained earnings	-	-	-	(248)	248	-
Balance at December 31, 2017	3,900	\$ 39,000	\$ 14,600	\$ 61,075	-	\$ 114,675

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

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

For the year ended December 31	2017	2016
Operating activities		
Cash receipts from customers	\$ 43,159	\$ 40,814
Cash receipts from parent	-	825
Cash receipts from contributions in aid of construction	332	332
Cash paid to suppliers	(17,368)	(17,464)
Cash paid to employees	(11,539)	(11,640)
Interest paid	(3,668)	(3,473)
Cash provided by operating activities	10,916	9,394
Financing activities		
Receipt of construction financing	-	8,400
Repayment of long-term debt	(5,238)	(6,067)
Cash provided by financing activities	(5,238)	2,333
Investing activities		
Additions to property, plant and equipment	(10,618)	(11,530)
Additions to intangible assets	(2,665)	(1,318)
Cash used in investment activities	(13,283)	(12,848)
Net (decrease) increase in cash	(7,605)	(1,121)
Cash, beginning of year	551	1,672
Cash, end of year	\$ (7,054)	\$ 551

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

1. NATURE OF OPERATIONS

a) General

Yukon Energy Corporation ("the Utility") is incorporated under the Yukon *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation ("YDC" or "the Parent"), a corporation owned by the Yukon Government ("YG" or "the Government"). The Utility generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes. The Utility's principal place of business is located at #2 Miles Canyon Road, Whitehorse, Yukon, Y1A 6S7.

The Utility is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Water Board. Both boards are consolidated by the Government and as such are considered to be related parties for accounting purposes. Management has assessed that these boards operate independently from the Utility from a rate setting and operating perspective.

b) Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility files a General Rate Application (GRA) for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principles of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the YG through Orders-In-Council ("OIC") that specify how the interests of the customer and Utility are to be balanced.

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

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the depreciation of all capital equipment; and
- the return on rate base (the borrowing costs related to borrowing that portion of rate base which is financed with debt plus the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

The YUB assesses the prudence of costs added to rate base, which includes an allowance for funds used during construction ("AFUDC") charged to capital projects. The YUB also reviews the appropriateness of property, plant and equipment depreciation rates, which are periodically updated by the Utility through depreciation studies.

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

1. NATURE OF OPERATIONS - continued

c) Water regulation

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

d) Capital structure

The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity (Note 24). Dividends are normally declared annually to the Parent and are typically loaned back in order to maintain this ratio during normal on-going operations. When large assets are purchased or constructed, the Parent may be required to make an equity or capital contribution.

2. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issue by the Board of Directors on May 9, 2018.

b) Basis of measurement

The financial information included in the financial statements has been prepared on a historical cost basis, except for financial instruments which are measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all periods presented in these financial statements.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

a) Revenue recognition

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

b) Translation of foreign currencies

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

c) Allowance for funds used during construction

The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The AFUDC rate is based on the Utility's weighted average cost of debt.

d) Cash

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

e) Inventories

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

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

f) Financial instruments

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

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

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

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

f) Financial instruments - continued

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

g) Property, plant and equipment

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

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

Assets under construction are recognized as in construction work in progress until they are operational and available for use, at which time they are transferred to the applicable component of property, plant and equipment.

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

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

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

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

g) Property, plant and equipment - continued

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

h) Intangible assets

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

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

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

i) Impairment of non-financial and financial assets

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

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

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

j) Rate regulated accounting policies

Regulatory deferral accounts

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

i) Regulatory deferral account debit balances

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

ii) Regulatory deferral account credit balances

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

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

k) Provision for asset retirement obligations

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

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

l) Provision for environmental liabilities

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

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

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

m) Contributions in aid of construction

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

n) Decommissioning fund

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

o) Post-employment benefits and other comprehensive income

The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest paid consecutive years of service. Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

For the defined benefit plan the cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Re-measurements of the net defined benefit liability, including actuarial gains and losses and return on plan assets, are recognized in other comprehensive income ("OCI") and are not reclassified to net income in a subsequent period. The Utility's policy is to immediately transfer actuarial gains and losses recognized in OCI to retained earnings. The expected return on plan assets is based on the fair value of these assets.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

3. SIGNIFICANT ACCOUNTING POLICIES - continued

o) Post-employment benefits and other comprehensive income - continued

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

p) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2017, and have not been applied in preparing these financial statements. There are three standards that management has identified as having a potential impact and is in the process of assessing, IFRS 15, *Revenue from Contracts with Customers*, IFRS 9, *Financial Instruments* which will replace IAS 39, *Financial Instruments* and IFRS 16, *Leases*.

i) On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Utility intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Utility has completed the preliminary analysis and there are no significant changes to its financial statements.

ii) IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement* and IFRIC 9, *Reassessment of Embedded Derivatives*. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard is expected to impact the classification and measurement of financial assets, introduce changes to financial liabilities and includes new hedge accounting requirements. The Utility intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Utility has completed the analysis of this standard and there are no significant changes to its financial statements.

iii) IFRS 16, *Leases*, specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard will become effective for annual periods beginning on or after January 1, 2019. The Utility is currently assessing the impact on its financial statements.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Areas of significant judgment and estimates made by management in preparing these financial statements include:

Impairment of long-lived assets - Notes 3g) and 7

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

Asset retirement obligations – Notes 3k) and 22

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

Depreciation and amortization – Notes 3g), h), 7 and 8

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

Intangible assets - Notes 3h) and 8

In determining when to recognize costs as intangible assets, management makes judgments about when the criteria for recognition are met. Changes to management's judgments would affect the carrying amount of its intangible assets and amortization recognition.

Regulatory deferral account debit and credit balances - Notes 3j) and 9

The Utility accounts for its regulatory deferral accounts in accordance with IFRS 14 *Regulatory Deferral Accounts* and the decisions of the YUB. The decisions can be complex and require significant judgment in their interpretation.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

Post-employment benefits – Notes 3o) and 13

The Utility accrues for its obligations under defined benefit pension plans using actuarial valuation methods and other assumptions to estimate the projected benefit obligation and the associated expense related to the current period. The key assumptions utilized include the long-term rate of inflation, rates of future compensation, liability discount rates and the expected return on plan assets. The Utility consults with qualified actuaries when setting the assumptions used to estimate benefit obligations. Actual rates could vary significantly from the assumptions and estimates used.

Revenue – Note 16

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

Provisions and Contingencies - Notes 3k), l), 21 and 22

Management is required to make judgments to assess if the criteria for recognition of provisions and contingencies are met, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Key judgments are whether a present obligation exists and the probability of an outflow being required to settle that obligation. Key assumptions in measuring recognized provisions include the timing and amount of future payments and the discount rate applied in measuring the provision.

Where the Utility is defending certain lawsuits management must make judgements, estimates and assumptions about the final outcome, timing of trial activities and future costs as at the period end date. Management will obtain the advice of its external counsel in determining the likely outcome and estimating the expected costs associated with these lawsuits; however, the ultimate outcome or settlement costs may differ from management's estimates.

Financial Instruments - Notes 3f) and 23

The Utility enters into financial instrument arrangements which may require management to make judgments to determine if such arrangements are derivative instruments in their entirety or contain embedded derivatives, including whether those embedded derivatives meet the criteria to be separated from their host contract, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Key judgments are whether certain non-financial items are readily convertible to cash, whether similar contracts are routinely settled net in cash or delivery of the underlying commodity taken and then resold within a short period, whether the value of a contract changes in response to a change in an underlying rate, price, index or other variable, and for embedded derivatives, whether the economic risks and characteristics are not closely related to the host contract and a separate instrument with the same terms would meet the definition of a derivative on a standalone basis.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

5. ACCOUNTS RECEIVABLE

	December 31 2017	December 31 2016
Wholesale energy sales	\$ 8,045	\$ 3,734
Retail energy sales	2,366	1,494
Due from related parties (Note 19)	373	112
Other	1,643	533
	\$ 12,427	\$ 5,873

At December 31, 2017, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 11,204	\$ 1,169	\$ 54	\$ 12,427
Allowance for doubtful accounts			(10)	(10)
	\$ 11,204	\$ 1,169	\$ 44	\$ 12,417

At December 31, 2016, the aging of accounts receivable is as follows:

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 5,616	\$ 232	\$ 35	\$ 5,883
Allowance for doubtful accounts	-	-	(10)	(10)
	\$ 5,616	\$ 232	\$ 25	\$ 5,873

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

	December 31 2017	December 31 2016
Allowance for doubtful accounts at beginning of year	\$ (10)	\$ (10)
Amounts written off as uncollectable	-	-
Allowance for doubtful accounts at end of year	\$ (10)	\$ (10)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

6. INVENTORIES

	December 31 2017	December 31 2016
Materials and supplies	\$ 3,342	\$ 3,087
Diesel fuel	337	299
Liquefied natural gas	103	211
	\$ 3,782	\$ 3,597

7. PROPERTY, PLANT AND EQUIPMENT

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

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
Cost:						
At December 31, 2015	\$ 275,192	\$ 160,494	\$ 15,852	\$ 3,481	\$ 7,507	\$ 462,526
Additions	680	-	138	784	10,667	12,269
Transfers	3,100	2,834	882	-	(6,816)	-
Disposals	-	-	(635)	(311)	-	(946)
At December 31, 2016	\$ 278,972	\$ 163,328	\$ 16,237	\$ 3,954	\$ 11,358	\$ 473,849
Additions	-	-	-	553	15,434	15,987
Transfers	8,043	2,604	11,651	-	(22,298)	-
Disposals	-	-	(189)	(238)	-	(427)
At December 31, 2017	\$ 287,015	\$ 165,932	\$ 27,699	\$ 4,269	\$ 4,494	\$ 489,409
Accumulated depreciation:						
At December 31, 2015	\$ 9,014	\$ 8,210	\$ 1,588	\$ 520	\$ -	\$ 19,332
Depreciation	5,525	4,386	847	285	-	11,043
Disposals	-	-	(635)	(245)	-	(880)
At December 31, 2016	\$ 14,539	\$ 12,596	\$ 1,800	\$ 560	\$ -	\$ 29,495
Depreciation	5,798	4,413	1,329	357	-	11,897
Disposals	-	-	(189)	(238)	-	(427)
At December 31, 2017	20,337	17,009	2,940	679	-	40,965
Net book value:						
At December 31, 2016	\$ 264,433	\$ 150,732	\$ 14,437	\$ 3,394	\$ 11,358	\$ 444,354
At December 31, 2017	\$ 266,678	\$ 148,923	\$ 24,759	\$ 3,590	\$ 4,494	\$ 448,444

* Included in generation depreciation is the annual depreciation for overhauls of \$802,000 (2015 - \$778,000) which is recognized in regulatory account expenses in Note 17.

The AFUDC capitalized for 2017 was \$466,000 (2016 - \$819,000). The AFUDC rate estimate was 2.36% for 2017 (2016 - 2.40%).

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

8. INTANGIBLE ASSETS

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

	Software	Deferred Customer Service Costs	Financial Software	Aishihik Water Licensing	Thermal and Water Licensing	Total
Cost:						
At December 31, 2015	\$ 462	\$ 443	\$ 2,406	3,032	\$ 2,516	\$ 8,859
Additions	66	-	-	955	297	1,318
Disposals	(8)	-	-	-	-	(8)
At December 31, 2016	520	443	2,406	3,987	2,813	10,169
Additions	170	-	-	1,969	109	2,248
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 690	\$ 443	\$ 2,406	\$ 5,944	\$ 2,825	\$ 12,308
Accumulated amortization:						
At December 31, 2015	\$ 61	\$ 128	\$ 568	\$ 1,038	\$ 72	\$ 1,867
Amortization	92	64	283	524	58	1,021
At December 31, 2016	153	192	851	1,562	130	2,888
Amortization	124	64	283	518	64	1,053
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 277	\$ 256	\$ 1,134	\$ 2,068	\$ 97	\$ 3,832
Net book value:						
At December 31, 2016	\$ 367	\$ 251	\$ 1,555	\$ 2,425	\$ 2,683	\$ 7,281
At December 31, 2017	\$ 413	\$ 187	\$ 1,272	\$ 3,876	\$ 2,728	\$ 8,476

The internally generated costs and externally purchased costs for Software and Financial Software are approximately 50% internal and 50% external at December 31, 2017 and December 31, 2016. All other categories are almost exclusively internally generated.

Yukon Energy Corporation

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9. REGULATORY ACCOUNTS

Regulatory deferral account debit balances

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Subtotal See next page
Cost:							
At December 31, 2015	\$ 18,555	\$ 566	\$ 4,360	\$ 1,644	\$ 144	\$ 267	\$ 25,536
Costs incurred	4,869	-	695	1,074	4	1,018	7,660
Regulatory provision	-	-	-	(502)	-	(226)	(728)
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
Contributions received	(825)	-	(1)	-	-	-	(826)
At December 31, 2016	20,548	-	4,260	2,216	148	1,059	28,231
Costs incurred	2,115	-	912	-	-	667	3,694
Regulatory provision	-	-	-	-	-	(479)	(479)
Disposals	(243)	-	(643)	-	-	-	(886)
Contributions received	(565)	-	(100)	-	-	-	(665)
At December 31, 2017	\$ 21,855	-	\$ 4,429	\$ 2,216	\$ 148	\$ 1,247	\$ 29,895

Accumulated amortization:

At December 31, 2015	\$ 4,344	\$ 453	\$ 1,345	-	-	-	\$ 6,142
Amortization	25	113	248	-	-	-	386
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
At December 31, 2016	2,318	-	799	-	-	-	3,117
Amortization	1,443	-	440	222	30	-	2,135
Disposals	(404)	-	(643)	-	-	-	(1,047)
At December 31, 2017	\$ 3,357	-	\$ 596	\$ 222	\$ 30	-	\$ 4,205

Net book value:

At December 31, 2016	\$ 18,230	-	\$ 3,461	\$ 2,216	\$ 148	\$ 1,059	\$ 25,114
At December 31, 2017	\$ 18,498	-	\$ 3,833	\$ 1,994	\$ 118	\$ 1,247	\$ 25,690

Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the Statement of Operations and Other Comprehensive Income):

December 31, 2016	\$ 4,019	\$ (113)	\$ 446	\$ 572	\$ 4	\$ 792	\$ 5,720
December 31, 2017	\$ 107	-	\$ 372	\$ (222)	\$ (30)	\$ 188	\$ 415

Remaining recovery years

At December 31, 2016	5 to 10 years	0 years	10 to 45 years	Indeterminate	4 years	Indeterminate
At December 31, 2017	5 to 10 years	0 years	10 to 45 years	Indeterminate	3 years	Indeterminate

Absent rate regulation, net income would increase (decrease) by:

December 31, 2016	\$ (4,019)	\$ 113	\$ (446)	\$ (572)	\$ (4)	\$ (792)	\$ (5,720)
December 31, 2017	\$ (107)	-	\$ (372)	\$ 222	\$ 30	\$ (188)	\$ (415)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

9. REGULATORY ACCOUNTS - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	Deferred Gains And losses (ix)	Total
Cost:					
At December 31, 2015	\$ 25,536	\$ 1,843	\$ 4	-	\$ 27,383
Cost incurred	7,660	925	-	-	8,585
Regulatory provision	(728)	-	-	-	(728)
Disposals	(3,411)	-	-	-	(3,411)
Contributions received	(826)	-	(6)	-	(832)
At December 31, 2016	28,231	2,768	(2)	-	30,997
Cost incurred	3,694	-	-	-	3,694
Regulatory provision	(479)	(2,768)	-	-	(3,247)
Disposals	(886)	-	-	-	(886)
Contributions received	(665)	-	50	-	(615)
At December 31, 2017	\$ 29,895	-	\$ 48	-	\$ 29,943
Accumulated amortization:					
At December 31, 2015	\$ 6,142	-	-	-	\$ 6,142
Amortization	386	-	-	-	386
Disposals	(3,411)	-	-	-	(3,411)
At December 31, 2016	3,117	-	-	-	3,117
Amortization	2,135	-	-	-	2,135
Disposals	(1,047)	-	-	-	(1,047)
At December 31, 2017	\$ 4,205	-	-	-	\$ 4,205
Net book value:					
At December 31, 2016	\$ 25,114	\$ 2,768	\$ (2)	-	\$ 27,880
At December 31, 2017	\$ 25,690	-	\$ 48	-	\$ 25,738
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement of regulatory deferral account balances on the Statement of Operations and Other Comprehensive Income):					
December 31, 2016	\$ 5,720	\$ 925	\$ (6)	-	\$ 6,639
December 31, 2017	\$ 415	\$ -	\$ 50	-	\$ 465
Remaining recovery years					
At December 31, 2016		Indeterminate	1 year		
At December 31, 2017		Indeterminate	1 year		
Absent rate regulation, Net Income would increase (decrease) by:					
December 31, 2016	\$ (5,720)	\$ (925)	\$ 6	-	\$ (6,639)
December 31, 2017	\$ (415)	\$ -	\$ (50)	-	\$ (465)

(a) Regulatory deferral account debit balances

(i) Feasibility studies and infrastructure planning

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

(ii) IFRS planning

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

9. REGULATORY ACCOUNTS - continued

(iii) Regulatory costs

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

(iv) Vegetation management

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

(v) Dam safety review

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

(vi) Uninsured losses

The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers. In the absence of rate regulation, IFRS would require these costs to be expensed as incurred.

(vii) Deferred overhauls

Overhauls represent costs incurred to overhaul engines that are used in operations and these overhauls are recorded as property, plant and equipment. The Utility was directed by YUB Order 2013-01 to defer all overhaul costs incurred after 2011 until the Utility comes before the YUB for a prudence review and the costs are approved to be depreciated. IFRS requires these completed overhauls to be considered in service and they should be depreciated through net income. In addition, IFRS also requires that AFUDC would cease when the overhaul is substantially ready for its intended purpose. As a result the AFUDC capitalized on these completed overhauls of (2016 - \$119,000) and the associated depreciation on these overhauls of (2016 - \$802,000) are shown as a regulatory deferral account debit balance. In the 2017 GRA filing the Utility has asked to move all overhauls under the IFRS rules.

(viii) Fuel price adjustment

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

(ix) Deferred gains and losses

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

9. REGULATORY ACCOUNTS - continued

Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing reserve (ii)	Diesel Contingency Fund (iii)	Future removal and site Restoration (iv)	Total
Cost:					
At December 31, 2015	\$ 11,602	\$ 561	\$ 10,895	\$ 4,367	\$ 27,425
Cost incurred	-	(138)	-	(8)	(146)
Regulatory provision	-	550	-	-	550
Cash received	-	-	1,054	-	1,054
Cash refunded	-	-	(2,464)	-	(2,464)
At December 31, 2016	11,602	973	9,485	4,359	26,419
Cost incurred	-	(3)	-	(54)	(57)
Regulatory provision	-	53	-	-	53
Cash received	-	-	2,072	-	2,072
Cash refunded	-	-	(2,861)	-	(2,861)
At December 31, 2017	\$ 11,602	\$ 1,023	\$ 8,696	\$ 4,305	\$ 25,626
Accumulated amortization:					
At December 31, 2015	\$ 6,111	-	-	-	\$ 6,111
Amortization	263	-	-	-	263
Disposals	-	-	-	-	-
At December 31, 2016	6,374	-	-	-	6,374
Amortization	262	-	-	-	262
Disposals	-	-	-	-	-
At December 31, 2017	\$ 6,636	-	-	-	\$ 6,636
Net book value					
At December 31, 2016	\$ 5,228	\$ 973	\$ 9,485	\$ 4,359	\$ 20,045
At December 31, 2017	\$ 4,966	\$ 1,023	\$ 8,696	\$ 4,305	\$ 18,990
Net (increase) decrease in regulatory deferral account credit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the statement of operations and other comprehensive income):					
December 31, 2016	\$ 263	\$ (412)	\$ 1,410	\$ 8	\$ 1,269
December 31, 2017	\$ 262	\$ (50)	\$ 789	\$ 54	\$ 1,055
Remaining recovery years					
At December 31, 2016	20 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2017	19 years	Indeterminate	Indeterminate	Indeterminate	
Absent rate regulation, net income would increase (decrease) by:					
December 31, 2016	\$ (263)	\$ 412	\$ (1,410)	\$ (8)	\$ (1,269)
December 31, 2017	\$ (262)	\$ 50	\$ (789)	\$ (54)	\$ (1,055)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

9. REGULATORY ACCOUNTS - continued

(b) Regulatory deferral account credit balances

(i) Deferred insurance proceeds

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

(ii) Hearing reserve

Pursuant to YUB Order 2013-01, the Utility has established a deferral account for future regulatory hearing costs. In accordance with the order the Utility recognized a provision of \$550,000 of hearing costs each year from 2012 to 2016. Actual hearing costs are applied to this regulatory deferral account. Variances between the annual provision and actual costs are deferred until the following GRA or until a specific application is made to the YUB requesting recovery or a refund to customers. In the absence of rate regulation, IFRS would require hearing costs to be expensed as incurred. At December 31, 2016, the Hearing Cost Reserve account had a balance of \$973,000. As part of Yukon Energy's 2017-2018 GRA, the Utility proposed the balance be amortized over a five year period (\$195,000 per year). In addition, the Utility proposed to decrease the annual provision from \$550,000 to \$250,000.

(iii) Diesel Contingency Fund and Energy Reconciliation Adjustment

The Diesel Contingency Fund ("DCF") was established by YUB Order 1996-6. The DCF is used to reimburse the Utility for costs associated with diesel generation required when there is a diesel cost variance due solely to water-related hydro and wind generation variances from YUB approved GRA forecasts.

The DCF attracts interest based upon short/intermediate term bond rates. Any negative balance attracts interest at the lowest short-term bond rates available to the Utility through its line of credit. The Utility is required to file quarterly reports with the YUB on the DCF's activity.

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and Energy Reconciliation Adjustment ("ERA") provisions of the Wholesale Primary Rate Schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes.

In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. A decision was delivered February 6, 2015. In accordance with YUB Order 2015-01, the Utility defers recognition of the additional amounts collected from rate payers when the cost of diesel consumed in the period is less than the long-term average diesel requirements estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the period when the cost of diesel fuel incurred for the period is greater than the long-term average diesel requirements and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- \$8 million for the DCF. If the balance falls outside of this range, the Utility is to make an application to the YUB requesting recovery or a refund to customers. In accordance with YUB Order 2015-06, the Utility is providing a refund to the customers of 0.68 cents/kWh effective September 1, 2015.

Yukon Energy Corporation

Notes to Financial Statements

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December 31 2017

9. REGULATORY ACCOUNTS - continued

(iii) Diesel Contingency Fund and Energy Reconciliation Adjustment - continued

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

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

(iv) Future removal and site restoration costs

The Utility maintains a regulatory provision for future removal and site restoration related to property plant and equipment, which is incremental to that required to be recognized as an asset retirement provision under IAS 37. The reserve has been established through amortization rates approved by the YUB. The amortization rates supporting the provision are based upon depreciation studies conducted periodically by the Utility. As a result of the YUB Order 2005-12, effective January 1, 2005, the provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory deferral account credit balance if they do not otherwise relate to an asset retirement provision. The period over which the provision will be reduced is dependent on the timing of future costs of demolishing, dismantling, tearing down, site restoration or otherwise disposing of the asset net of actual recoveries, and is therefore indeterminate. In the absence of rate regulation, IFRS would require these costs to be expensed or included in the gain or loss on disposal of the related property, plant and equipment, as applicable.

(c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of \$3,441,000 (2016 - \$8,585,000) and regulatory account credit balances of \$58,000 (2016 - \$146,000). Total regulatory expenses were \$3,499,000 (2016 - \$8,731,000) and all these amounts were paid during the year.

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

Net movement in regulatory deferral account balances related to net income is \$1,681,000 (2016 – \$(7,908,000)) represents the adjustment to the net income for the year before net movement in regulatory deferral account balances for the effects of rate regulation in accordance with IFRS 14. The net movement figure of \$7,908,000 is comprised of higher net income of \$(626,000) and \$(1,055,000) for both regulatory account debit balances and regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS. The net movement figure of \$(7,908,000) for 2016 is comprised of lower net income of \$(6,639,000) and \$(1,269,000) for both regulatory account debit balances and regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS.

Yukon Energy Corporation

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10. BANK INDEBTEDNESS

The Utility has access to a permanent \$10 million line of credit. Effective August 25, 2017, the line of credit was increased temporarily to \$22 million. The temporary increase expires August 24, 2018. The account accrues interest on withdrawals at prime rate minus 0.75% per annum. The amount outstanding on the line of credit balance at year end was \$9.6 million (2016 - \$2.5 million).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2017	December 31 2016
Trade payables	\$ 7,404	\$ 7,138
Employee compensation	1,328	989
Due to related parties (Note 19)	812	199
Other	1,301	209
	\$ 10,845	\$ 8,535

12. CONSTRUCTION FINANCING

	December 31 2017	December 31 2016
Construction financing, due December 31, 2017 bearing interest at 1.33% approved to a maximum of \$8.4 million	\$ -	\$ 8,400
Construction financing, due December 31, 2017 bearing interest at 1.40% approved to a maximum of \$14 million	-	13,985
Construction financing, due December 31, 2018 bearing interest at 2.139% approved to a maximum of \$8.4 million	8,400	-
Construction financing, due December 31, 2018 bearing interest at 2.139% approved to a maximum of \$14 million	13,985	-
	\$ 22,385	\$ 22,385

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

During the year the Utility did not make any principal repayments.

Yukon Energy Corporation

Notes to Financial Statements

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13. LONG-TERM DEBT

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

	December 31 2017	December 31 2016
Yukon Development Corporation		
\$92,458,473 term note bearing interest at 2.40% repayable in annual installments of \$3,683,800 principal, plus accrued interest with the balance of \$77,726,473 due December 31, 2019	\$ 81,407	\$ 85,091
\$21,900,000 flexible term note bearing interest up to 5.46% repayable in annual installments of \$336,923 principal, plus accrued interest with the balance of \$8,423,078 due December 31, 2051 (i)	19,878	20,215
\$5,505,000 term note bearing interest at 2.40% interest only payable annually, due December 31, 2039	5,505	5,505
\$20,984,404 term note bearing interest at 2.21% repayable in annual installments of \$839,376 principal, plus accrued interest with the balance due December 31, 2040	19,306	20,145
\$12,136,000 term note bearing interest at 2.10% interest only payable annually, due December 31, 2041 (ii)	12,136	12,136
TD Bank		
The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Payable in monthly installments of \$50,407 interest and principal with the balance due on December 28, 2022 (iii)	9,348	9,697
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non-interest bearing, repayable in varying installments, due in 2028	191	220
	147,771	153,009
Less current portion	5,248	5,238
	\$ 142,523	\$ 147,771

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

13. LONG-TERM DEBT - continued

(i) **\$21,900,000 Flexible Term Note**

The terms of the flexible term note provide for a maximum amount of interest payable within a calendar year, calculated based on the actual grid generation on the electrical grid system connected with the Mayo Hydro Enhancement Project. The amount of interest payable as a result of the interest rate exceeding the maximum interest payable will abate forever. The actual interest rate on this flexible note was 0.81% (2016 - 0.81%).

(ii) **Debt Refinancing**

On December 31, 2016, the Utility entered into an agreement with YDC to convert \$9,295,000 of existing construction financing with YDC into long-term debt (Notes 11 and 12) and borrow \$2,841,000 declared as a dividend to YDC at year end to maintain its capital structure (Note 25).

(iii) **TD Bank Loan and Interest Rate Swap**

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

Long-term debt repayment

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

2018	\$	5,218
2019		79,283
2020		1,570
2021		1,570
2022		9,074
Thereafter		51,056
	\$	147,771

The change in long-term debt arising from financing activities during the year related to principal repayment of \$5,238. An amount of \$5,248 was reclassified from long-term debt to current portion of long-term debt due to the passage of time.

Fair value

The fair value of long-term debt at December 31, 2017 is \$146 million (2016 - \$154 million). The fair value for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

14. POST-EMPLOYMENT BENEFITS

Characteristics of benefit plans

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

Employees joining the Utility after January 1, 2002 are not eligible to participate in the employee defined benefit pension plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the employee defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2017, these were \$454,000 (2016 - \$448,000).

The employee defined benefit pension plan and the defined benefit pension plan for a former executive are regulated by the Office of the Superintendent of Financial Institutions (OSFI) through the *Pension Benefits Standards Act* and regulations. This Act and accompanying regulations impose, among other things, minimum funding requirements.

These minimum funding requirements require the Utility make special payments as prescribed by the OSFI to repay any unfunded liability or deficit that may exist. For the employee defined benefit pension plan the Utility is required to pay \$87,300 as a minimum annual payment in each of the next 12 years (2016 - \$225,300 in each of the next 12 years).

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

Risks associated with defined benefit plans

The defined benefit pension plans expose the Utility to risk such as investment risk and actuarial risk. Investment risk is the risk that the assets invested will be insufficient to meet expected benefits. Actuarial risk is the risk that benefits paid will be more than expected. There are no particular unusual, entity-specific or plan-specific risks or any significant concentration of risk.

Yukon Energy Corporation

Notes to Financial Statements

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14. POST-EMPLOYMENT BENEFITS - continued

Net defined benefit liability

	December 31 2017	December 31 2016
Present value of benefit obligations		
Balance, beginning of year	\$ 22,980	\$ 20,793
Employee Contributions	84	84
Current service cost	543	493
Interest cost	910	868
Benefits paid	(559)	(458)
Actuarial losses (gains) on experience	(755)	539
Actuarial losses (gains) on financial assumptions	1,572	661
Balance, end of year	\$ 24,775	\$ 22,980
Fair value of plan assets		
Balance, beginning of year	17,113	15,357
Interest income on plan assets	671	638
Gains (losses) on plan assets	688	716
Employee contributions	84	84
Employer contributions	673	781
Benefits paid	(521)	(421)
Administrative costs	(50)	(42)
Balance, end of year	18,658	17,113
Net defined benefit liability	\$ 6,117	\$ 5,867

Components of benefit plan cost:

	December 31 2017	December 31 2016
Current service cost	\$ 543	\$ 493
Interest cost	910	868
Interest income on plan asset	(671)	(638)
Administrative costs	50	42
Defined benefit expense in Statement of Operations	832	765
Defined contribution expense	77	448
Total benefit expense in Statement of Operations	\$ 909	\$ 1,213
Actuarial losses (gains) on obligation	765	1,200
(Gains) losses on plan assets	(688)	(717)
Total re-measurements included in Other Comprehensive Income	77	483
Total benefit costs recognized in Statement of Operations and Other Comprehensive Income	986	1,696

Yukon Energy Corporation

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(tabular amounts in thousands of Canadian dollars)

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14. POST-EMPLOYMENT BENEFITS - continued

Distribution of plan assets of defined benefit pension plans

The fair value of the defined benefit pension plans' assets are based on market values as reported by the defined benefit pension plans' custodians as at each applicable Statement of Financial Position date. The distribution of assets by major asset class is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Equities	51.8%	54.9%
Fixed income securities	38.5%	35.9%
Real estate	9.7%	9.2%

Significant assumptions:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate - accrued benefit obligation	3.40 - 3.50%	3.90 - 4.00%
Assumed rate of salary escalation	2.80 - 3.50%	2.80 - 3.50%
Pension growth	2.00 - 2.50%	2.00 - 2.50%

Sensitivity analysis of the defined benefit pension plans:

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

Assumptions and sensitivity as at December 31, 2017

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.29%	18.14%	\$ (3,540)	\$ 4,494
Salary growth	2.18%	-2.07%	508	(483)
Pension growth	14.48%	-11.93%	3,378	(2,784)
Life expectancy (1 year movement)	2.63%	-2.64%	652	(655)

Assumptions and sensitivity as at December 31, 2016

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.1%	17.9%	\$ (3,241)	\$ 4,129
Salary growth	2.5%	-2.4%	550	(521)
Pension growth	14.2%	-11.7%	3,071	(2,537)
Life expectancy (1 year movement)	2.4%	-2.4%	555	(559)

Yukon Energy Corporation

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December 31 2017

14. POST-EMPLOYMENT BENEFITS - continued

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

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

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

The average duration of the benefit obligation is 16.0 years (2016 - 16.0 years). The Utility expects to make payments of \$672,000 (2016 - \$706,000) to the defined benefit plans during the next financial year.

15. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Government of Canada	Parent since 1998	Customer since 1998	Yukon Government since 1998	Pre-1998 contributions	Total
Cost:						
At December 31, 2015	\$ 71,000	\$ 91,810	\$ 24,579	\$ 11,040	\$ 1,739	\$ 200,168
Additions	-	-	274	58	-	332
At December 31, 2016	71,000	91,810	24,853	11,098	1,739	200,500
Additions	-	-	41	291	-	332
At December 31, 2017	\$ 71,000	\$ 91,810	\$ 24,894	\$ 11,389	\$ 1,739	\$ 200,832
Accumulated amortization:						
At December 31, 2015	\$ 4,039	\$ 7,911	\$ 8,761	\$ 1,625	\$ 1,292	\$ 23,628
Amortization	990	1,680	1,179	209	44	4,102
At December 31, 2016	5,029	9,591	9,940	1,834	1,336	27,730
Amortization	991	1,612	1,255	213	43	4,114
At December 31, 2017	\$ 6,020	\$ 11,203	\$ 11,195	\$ 2,047	\$ 1,379	\$ 31,844
Net book value:						
At December 31, 2016	\$ 65,971	\$ 82,219	\$ 14,913	\$ 9,264	\$ 403	\$ 172,770
At December 31, 2017	\$ 64,980	\$ 80,607	\$ 13,699	\$ 9,342	\$ 360	\$ 168,988

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

Yukon Energy Corporation

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(tabular amounts in thousands of Canadian dollars)

December 31 2017

16. DECOMMISSIONING FUND

	December 31 2017	December 31 2016
Opening balance	\$ 2,636	\$ 2,612
Interest	29	24
Closing balance	\$ 2,665	\$ 2,636

17. SALES OF POWER

	2017	2016
Wholesale	\$ 35,334	\$ 28,641
Industrial	5,298	4,506
General service	4,924	4,359
Residential	2,494	2,040
Secondary sales	635	371
Sentinel and street lights	104	96
	\$ 48,789	\$ 40,013

18. OPERATIONS AND MAINTENANCE EXPENSES

	2017	2016
Regulatory account expenses (Note 9 (c))	\$ 3,751	\$ 8,731
Wages and benefits	6,182	5,955
Contractors	3,176	1,692
Materials and consumables	1,335	1,173
Fuel	2,911	1,168
Travel	352	311
Rent	436	234
Communication	69	58
	\$ 18,212	\$ 19,322

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

19. ADMINISTRATION EXPENSES

	2017	2016
Wages and benefits	\$ 5,711	\$ 5,737
Materials, consumables and general	1,007	2,273
Insurance and taxes	1,816	1,812
External labour	1,231	1,189
Licences and fees	711	658
Travel	181	171
Board fees	55	83
	\$ 10,712	\$ 11,923

20. RELATED PARTY TRANSACTIONS

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

Interim Electrical Rebate program revenues are received from YDC in accordance with terms established by YG which established the program to protect certain ratepayers. These revenues are included in sales of power on the Statement of Operations and Other Comprehensive Income.

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

	2017	2016
Revenue		
Sales of service to YDC	\$ 4	\$ 6
Rate subsidy received from YDC	299	299
Funding from YDC	-	825
Operating expenses		
Interest expense on borrowings from YDC	\$ 3,957	\$ 3,220
Dividend to YDC	\$ -	\$ 2,841
Other receipts		
Construction financing from YDC	-	8,400
Other payments		
Repayment of long-term debt from YDC	\$ 4,860	\$ 4,860

Yukon Energy Corporation

Notes to Financial Statements

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December 31 2017

20. RELATED PARTY TRANSACTIONS - continued

Other related party transactions and balances are as disclosed elsewhere in these financial statements (Notes 11 and 12).

Funding from YDC of \$825,000 is for feasibility studies for the Stewart Keno Transmission Line.

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

	December 31 2017	December 31 2016
<hr/>		
YDC		
Accounts receivable	\$ 30	\$ 28
Accounts payable	442	167
Construction financing	22,385	22,385
Current portion of long-term debt	4,860	4,860
Long-term debt	133,373	138,233
YG		
Accounts receivable	\$ 343	\$ 62
Accounts payable	42	32
<hr/>		

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

Transactions with Key Management Personnel

The Utility's key management personnel include members of the senior management team and the Board of Directors, a total of 16 individuals (2016 - 18 individuals). Key management personnel compensation is as follows:

Year ended December 31	2017	2016
Short-term employee benefits	\$ 1,591	\$ 1,537
Post-employment benefits	182	59
	<hr/>	<hr/>
	\$ 1,773	\$ 1,596
	<hr/>	<hr/>

Yukon Energy Corporation

Notes to Financial Statements

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December 31 2017

21. COMMITMENTS

Aishihik water licence

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

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

Contractual obligations

The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2017 as the product or service had not been provided. The total commitments at year end are \$6,101,000 (2016 - \$1,754,000).

22. CONTINGENCIES

Aishihik Third Turbine Project

This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for \$4,000,000 plus interest and costs alleging the Utility has not paid for work performed. During 2016, the judge awarded the plaintiff \$1,682,000 of which \$1,308,000 had already been accrued for in the financial statements. The Utility is also required to reimburse the plaintiff for its legal costs and interest. The Utility has recognized an estimate for this amount as a liability in the Statement of Financial Position. The Utility has appealed the decision. The outcome of the appeal is not determinable at this time and no estimate of appeal settlement has been recognized in the financial statements.

Asset Retirement Obligations

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

23. PROVISION FOR ENVIRONMENTAL LIABILITIES

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

The Utility has conducted environmental site assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2017 no new provisions for environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis. The Utility does not have a provision for environmental liabilities as there is no present obligation to remediate.

Yukon Energy Corporation

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2017, the Utility's financial instruments included cash, accounts receivable, accounts payable and accrued liabilities, construction financing, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 12.

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

The Utility did not engage in any other hedging transactions.

Interest rate risk

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

As at December 31, 2017, the Utility had an interest rate swap agreement in place with a notional principal amount of \$9.4 million (2016 - \$9.7 million). The agreement effectively changes the Utility's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%.

The fair value of the interest rate swap agreement on December 31, 2017 was a liability of \$56,000 (2016 - liability of \$409,000). The increase in the fair value in 2017 of \$353,000 (2016 - increase of \$144,000) is recognized on the Statement of Operations and Other Comprehensive Income as an unrealized gain or loss. A 100 basis point increase or decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of \$401,000 (2016 - \$498,000).

The Utility has access to a \$10 million line of credit. Effective August 25, 2017, the line of credit was increased temporarily to \$22 million. The temporary increase expires August 24, 2018. The account accrues interest on withdrawals at prime rate minus 0.75% per annum. By agreement the financial institution has a legally enforceable right to set off the outstanding balance under the line of credit by cash balances in other accounts with the same bank. The amount outstanding on the line of credit balance at year end was \$10.1 million (2016 - \$2.5 million). The Utility has cash balances with the same financial institution of \$2.8 million (2016 - \$2.8 million). Due to the short-term nature of the amount drawn on the line of credit and the Utility's cash balances with the same financial institution, the interest rate risk is minimal.

Credit risk

Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Utility.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of Canadian dollars)

December 31 2017

24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

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

	December 31 2017	December 31 2016
Cash	\$ -	\$ 551
Accounts receivable	12,427	5,873
	<u>\$ 12,427</u>	<u>\$ 6,424</u>

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

Credit risk on accounts receivable is considered minimal as the Utility has experienced insignificant bad debt in prior years. In addition, its primary customer is a rate regulated utility that purchases power from the Utility for resale and as such these receivables are considered fully collectible. Included in the accounts receivable past due but not impaired at December 31, 2017 are \$1,222,000 (2016 - \$257,000) which management believes will be received in full.

Liquidity risk

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

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

Fair values

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2017:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$56	-	\$56
Long-term debt	-	-	\$148,000	\$148,000

Yukon Energy Corporation

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24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

The following table illustrates the fair value hierarchy of the Utility's financial instruments as at December 31, 2016:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$409	-	\$409
Long-term debt	-	-	\$154,000	\$154,000

25. CAPITAL MANAGEMENT

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

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Short term debt related to assets under construction at the Statement of Financial Position date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning of the Minto Mine spur line has been added (Note 15). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the Statement of Financial Position. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

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

Yukon Energy Corporation

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25. CAPITAL MANAGEMENT - continued

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

	December 31	
	2017	2016
Long-term debt due within one year	\$ 5,248	\$ 5,238
Long-term debt	142,523	147,771
Total debt	147,771	153,009
Add provision for decommissioning of industrial customer spur line	2,665	2,636
Total debt to include in the calculation	\$ 150,436	\$ 155,645
Share capital	\$ 39,000	\$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	61,075	51,034
Total shareholder's equity	114,675	104,634
Total capitalization	\$ 265,111	\$ 260,279
Total debt to total capitalization	57 %	60 %

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