2016 ANNUAL REPORT

YUKON DEVELOPMENT CORPORATION

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MESSAGE FROM THE CHAIR

2016 was a year of continuity for Yukon Development Corporation. Board governance workshops in January informed corporate objectives for 2016 and provided concrete direction for the development of our 2016 Business Plan.

The cooperation between the Yukon Development Corporation and Yukon Energy Corporation to carry out the remaining preliminary work for the Stewart-Keno Transmission Line stands the project in good stead as we work to identify construction funding in 2017.

Progress in the area of corporate governance continued throughout 2016 with advances being made in the areas of risk management, subsidiary accountability and the updating of board bylaws.

I look forward to working with the newly elected government as we, and our subsidiary, Yukon Energy Corporation, ensure the production of cost effective and reliable energy continues to meet Yukon's needs for now and the future.

Joanne Fairlie, Chair

MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

Under the direction of the Board, Yukon Development Corporation has prepared this 2016 Annual Report to present a balanced and accurate summary of the Corporation's performance for the calendar and fiscal year that ended December 31, 2016.

As I conclude my first full year with Yukon Development Corporation, I am pleased to report on the progress of the Corporation. Our team's actions throughout the year reflected the priorities of the five-year Strategic Plan and were guided by the initiatives within our 2016 Business Plan including strengthening our subsidiary governance accountabilities.

With the release of the Viability Study Report in March, the initial phase of Next Generation Hydro was completed. Discussions between YDC and First Nations on potential next steps continued during 2016 and we are encouraged that we were able to sustain this dialogue.

Work on the permitting and engineering for the Stewart-Keno Project was largely complete by the end of 2016 and now the Corporation will begin identifying funding options for construction of the project.

I look forward to working with the Board and our newly elected government to continue to implement government's priorities for the Corporation in 2017.

Sincerely,
Justin Ferbey, President & CEO

ORGANIZATIONAL OVERVIEW

Yukon Development Corporation (YDC) is a Territorial Corporation created in 1986 by the *Yukon Development Corporation Act*. We are governed by a Board of Directors appointed by the Yukon government and have a legislative mandate to participate with the private sector in the economic development of Yukon. In particular, the Act mandates the Corporation to:

- Develop and promote the development of Yukon resources on an economic and efficient basis;
- Promote employment and business opportunities for territorial residents;
- Assure a continuing and adequate supply of energy in a manner consistent with sustainable development; and
- Implement development policy directives issued to it by the Yukon Cabinet.

Order-in-Council 1993/07 restricted the Corporation's role to energy-related activities designed to promote the economic development of Yukon, and to:

- Assure a continuing and adequate supply of energy;
- Alleviate the effects of any energy shortage that may occur; and
- Promote the establishment, development and operation within Yukon of industries or undertakings that are by their nature energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

BOARD OF DIRECTORS

Joanne Fairlie (Chair)
John Wierda
Dan Reams
Michael Lauer
Jackie Bazett
JoAnne Harach
Edmund Schultz (until May 2016)
William LeBarge
Collin Young

Board of Directors' Appointments

The Board of the Yukon Development Corporation is appointed by the Yukon government.

YDC Audit Committee

Collin Young (Chair)
Joanne Fairlie
Dan Reams
John Wierda

YDC Governance Committee

Jackie Bazett (Chair)
Joanne Fairlie
JoAnne Harach
Michael Lauer

Senior Management and Officers

Justin Ferbey, President and Chief Executive Officer
Lisa Jarvis, Corporate Secretary
Blaine Anderson, Chief Financial Officer

YEAR IN REVIEW

Next Generation Hydro

Since 2013, the Corporation has been implementing the Hydropower Planning Directive (OIC 2013/201) through the Next Generation Hydro project. Several technical papers were presented at public workshops and discussed with First Nations, communities and stakeholders. The technical papers included a two-part site screening report; an electrical needs assessment to 2065; a transmission line and market assessment analysis; an environmental and socioeconomic effects assessment; and estimated project costs per construction phase. An additional report on alternatives to hydro was also developed to compare other renewable and thermal options to meet long-term capacity requirements in Yukon.

A *Viability Study Report* was released as a wrap-up report in early 2016, integrating the findings from previous technical papers. The report summarizes the different risks, benefits, and challenges of potential generation options in order to provide Yukon with the information needed to make reasoned, defensible, and informed decisions in the future.

Work during the spring and summer of 2016, centered on discussions with those First Nations who had indicated an openness to continuing the research on potential projects within their Traditional Territories.

The outcome of the Territorial election in the fall led to a change in government and proposed an expansion in the Corporation's focus to include smaller renewable energy technologies.

Keno-Stewart Transmission Line

Work on the permitting and engineering for this project continued in 2016. The Yukon Environmental and Socio-economic Assessment Board issued its recommendation that the project proceed in May. Yukon government's decision document approving the project was finalized by the end of June.

Through a public tendering process, a contract for the detailed engineering of the transmission line was awarded to Chimax Inc. and to ATCO Power for detailed engineering for the substation. Work on both contracts was largely complete by the end of 2016.

Work to identify potential sources of federal funding for the project is ongoing. Reconstruction of this strategic infrastructure will ensure that the reliability of the line is maintained and that there is sufficient capacity for regional economic development.

Interim Electrical Rebate

2016 was the sixth full year of the Interim Electrical Rebate, providing residential electrical customers with a rebate of up to $26.62 based on the first 1,000 kilowatt hours they use each month. In 2016, the Yukon government, through YDC, provided $3,396,000 to the program. These funds were provided to Yukoners through ATCO Electric Yukon and Yukon Energy Corporation.

Risk Management

In 2016, Yukon Development Corporation took steps to improve its risk management practices. The Corporation initiated an assessment of its current corporate risks and potential mitigations. A new Risk Management Framework will be finalised and implementation is scheduled to begin in 2017.

Governance and Subsidiary Accountability

In addition to the development of an annual Shareholder Letter of Expectations between the Corporation and Yukon Energy Corporation, work was undertaken at the direction of the Board to develop a framework for financial accountability, communications, procurement and quarterly reporting. Work on the Subsidiary Accountability Manual is expected to be completed in early 2017.

Policy and Corporate Support

Yukon Development Corporation provides input and a corporate perspective to various government initiatives at the Territorial and Federal level. A key focus for 2017 was YDC's participation in the development of the *Pan-Canadian Framework for Clean Growth and Climate Change* including participation on the electrical subcommittee. The corporation is pleased to see Yukon's perspective reflected in the completed framework and looks forward to playing a role in its implementation.

YUKON DEVELOPMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The Auditor General of Canada is the external auditor of the Corporation.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the consolidated financial statements. The auditors have full and free access to the Audit Committee and management.

Justin Ferbey
President and CEO

Blaine Anderson
Chief Financial Officer

May 19, 2017

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Yukon Development Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Yukon Development Corporation, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of operations and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Yukon Development Corporation as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Yukon Development Corporation Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Yukon Development Corporation and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Yukon Development Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* of Yukon and regulations, the *Yukon Development Corporation Act* and regulations, the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations, and the articles and by-laws of the Yukon Development Corporation.

David Irving

David Irving, CPA, CA
Principal
for the Auditor General of Canada

19 May 2017
Edmonton, Canada

Yukon Development Corporation

Consolidated Financial Statements

December 31, 2016 **Page**

Yukon Development Corporation

Consolidated Statement of Financial Position
(in thousands of Canadian dollars)

As at December 31,		2016		2015
Assets				
Current				
Cash	$	3,239	$	13,634
Accounts receivable (Note 5)		7,030		7,166
Inventories (Note 6)		3,598		3,614
Prepaid expenses		754		828
Current portion of lease receivable (Note 7)		-		45
		14,621		25,287
Non-current				
Finance lease receivable (Note 7)		117		117
Property, plant and equipment (Note 8)		438,802		437,492
Intangible assets (Note 9)		7,281		6,992
Total assets		**460,821**		469,888
Regulatory deferral account debit balances (Note 10)		27,880		21,241
Total assets and regulatory deferral account debit balances	**$**	**488,701**	$	491,129
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 11)	$	9,166	$	7,563
Construction financing (Note 12)		-		39,200
Derivative related liability (Note 24)		429		660
Current portion of long-term debt (Note 13)		3,667		5,287
		13,262		52,710
Non-current				
Post-employment benefits (Note 14)		5,867		5,436
Contributions in aid of construction (Note 15)		95,780		98,054
Decommissioning fund (Note 16)		2,636		2,612
Construction financing (Note 12)		39,200		-
Long-term debt (Note 13)		134,535		138,163
Total liabilities		**291,280**		296,975
Equity				
Contributed capital		41,501		41,501
Retained earnings		136,128		131,605
Total equity		**177,629**		173,106
Total liabilities and equity		468,909		470,081
Regulatory deferral account credit balances (Note 10)		19,792		21,048
Total liabilities, equity and regulatory deferral account credit balances	**$**	**488,701**	$	491,129

Commitments and Contingencies (Notes 21 and 22)
The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

Joanne Fairlie, Chair Collin Young, Director

Yukon Development Corporation

Consolidated Statement of Operations and Other Comprehensive Income
(in thousands of Canadian dollars)

For the year ended December 31,		2016		2015
Revenues				
Sales of power (Note 17)	$	39,738	$	40,674
Yukon Government contributions (Note 1)		7,380		10,092
Other		316		396
		47,434		51,162
Operating expenses				
Operations and maintenance (Note 18)		19,325		17,376
Administration (Note 19)		12,964		12,271
Depreciation and amortization (Notes 8 and 9)		11,112		10,304
		43,401		39,951
Income from operations		**4,033**		11,211
Other income				
Amortization of contributions in aid of construction (Note 15)		2,604		2,593
Allowance for funds used during construction		815		710
Unrealized gain on interest rate swaps (Note 24)		231		-
Interest income		69		43
		3,719		3,346
Other expenses				
Interest on borrowings		7,520		6,500
Interim electrical rebate program subsidies (Note 1)		3,121		3,090
Unrealized loss on interest rate swaps (Note 24)		-		261
		10,641		9,851
Net (loss) income for the year before net movement in regulatory deferral account balances		**(2,889)**		4,706
Net movement in regulatory deferral account balances related to net income (Note 10(d))		**7,895**		(2,738)
Net income for the year and net movement in regulatory deferral account balances		**5,006**		1,968
Other comprehensive (loss) income				
Item that will not be reclassified to net income in subsequent periods				
Re-measurement of defined benefit pension plans (Note 14)		**(483)**		512
Total comprehensive income for the year	**$**	**4,523**	$	2,480

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

Yukon Development Corporation

Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	**$ 41,501**	**$ 129,125**	**$ -**	**$ 170,626**
Net income for the year and net movement in regulatory deferral account balances	-	1,968	-	1,968
Other comprehensive (loss) income	-	-	512	512
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	512	(512)	-
Balance at December 31, 2015	**$ 41,501**	**$ 131,605**	**$ -**	**$ 173,106**
Net income for the year and net movement in regulatory deferral account balances	-	5,006	-	5,006
Other comprehensive income	-	-	(483)	(483)
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	(483)	483	-
Balance at December 31, 2016	**$ 41,501**	**$ 136,128**	**$ -**	**$ 177,629**

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

Yukon Development Corporation

Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

For the year ended December 31,	2016	2015
Operating activities		
Cash receipts from customers	$ 40,510	$ 41,546
Cash receipts from Yukon Government	7,019	10,503
Cash receipts from contributions in aid of construction	332	740
Cash paid to suppliers	(20,406)	(21,805)
Cash paid to employees	(12,349)	(12,087)
Interest paid	(7,493)	(6,853)
Interest received	105	69
Cash provided by operating activities	**7,718**	12,113
Financing activities		
Repayment of long-term debt	(5,249)	(4,540)
Proceeds from long-term debt	-	20,984
Receipt of construction financing	-	11,200
Cash (used in) provided by financing activities	**(5,249)**	27,644
Investing activities		
Additions to property, plant and equipment	(11,546)	(28,047)
Additions to intangible assets	(1,318)	(707)
Cash used in investing activities	**(12,864)**	(28,754)
Net increase (decrease) in cash	(10,395)	11,003
Cash, beginning of year	13,634	2,631
Cash, end of year	**$ 3,239**	$ 13,634

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

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1. Nature of operations

a) General

Yukon Development Corporation (the "Corporation") was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission in the Yukon. In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon. The Corporation's principal place of business is located at 3106 Third Avenue, Suite 204 Whitehorse, YT Y1A 1H6.

The Corporation's wholly-owned subsidiary, Yukon Energy Corporation (the "Utility") was incorporated under the Yukon *Business Corporations Act*. The Utility generates, transmits, distributes and sells electrical energy in the Yukon and 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 Corporation from a rate setting and operating perspective. The Corporation and the Utility are not subject to income taxes.

b) Rate regulation

The operations of the Corporation are regulated by the YUB pursuant to the *Public Utilities Act*. The Corporation 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 Corporation investment in rate base. There is no minimum requirement for the Corporation to appear before the YUB to review rates. However, the Corporation 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 Corporation 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 principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council ("OIC") that specify how the interests of the customer and Corporation are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Corporation 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 Corporation 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 Corporation 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 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 prudency of costs added to rate base, which includes an allowance for funds used during construction ("AFUDC") charged to capital projects. The YUB also reviews the appropriateness of property, plant and equipment depreciation rates, which are periodically updated by the Corporation 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.

1. Nature of operations - continued

This process is guided mainly by requirements of OIC 1995/90 and can include a cost-of-service study which allocates the overall Corporation's cost of service to the various customer classes on the basis of appropriate costing principles.

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

d) Capital structure
The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity (Note 25).

e) Yukon Government
In March 2016, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for 12 months at current levels, to March 31, 2017. The rebate provides subsidies to non-government residential and municipal customers. It was implemented in 1998 after the Faro mine closed to protect customers from significant bill increases that would have resulted from that shutdown. The Yukon Government is providing funding for the rebate to a maximum of $3.5 million per fiscal year. In 2015, the Corporation received $3.194 million (2015 - $3.565 million) in funding for the program. The total subsidy payments made by the Corporation during the current year were $3.12 million (2015 - $3.09 million).

The Corporation and the Yukon Government signed a Memorandum of Understanding for the accounting period starting April 1, 2011 to March 31, 2042 regarding the Mayo B and Carmacks-Stewart Transmission line projects. The Yukon Government will assist in funding the repayment of a portion of the bond interest costs of up to $2.625 million annually, subject to the Corporation meeting specified terms set out in the agreement. The Corporation received $2.625 million in 2016 (2015 - $2.455 million) for bond interest costs.

The Corporation was directed to conduct Hydro-Electric Power planning studies. The Corporation recognized $.907 million as revenue in 2016 (2015 - $2.071 million) for the Hydro-Electric Power planning studies from the Yukon Government.

The Corporation signed two agreements with the Yukon Government for total funding of up to $5.3 million to conduct feasibility studies related to upgrading the transmission facilities between Stewart Crossing and Keno City. The Corporation recognized $.825 million as revenue in 2016 (2015 - $2 million). The first agreement has been completed and the second agreement is from September 1, 2015 to March 31, 2017.

2. Basis of presentation

a) Statement of compliance
These consolidated 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 19, 2017.

b) Basis of measurement
The financial information included in the consolidated 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 consolidated financial statements.

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 Corporation 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 Corporation'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 Corporation'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 Corporation'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 price, 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 Corporation's Consolidated Statement of Financial Position when the Corporation 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 Corporation 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).

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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

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

g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Corporation's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Corporation's net investment outstanding in respect of the leases.

h) Property, plant and equipment

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

AFUDC is based on the Corporation'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 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 Corporation and any changes in the estimated useful life are accounted for prospectively.

3. Significant accounting policies - continued

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 10). These gains and losses are recognized immediately in net income under IFRS.

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 10). Repairs and maintenance costs of property plant and equipment are expensed as incurred unless they meet the criteria of a betterment.

i) Intangible assets

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

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

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

j) Impairment of non-financial and financial assets

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

When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use and fair value less costs to sell ("FVLCS") for non-financial assets and objective evidence of impairment in the case of financial assets. Value in use is the net present value of expected future cash flows of the relevant cash-generating unit in its current condition. The best evidence of FVLCS is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCS is based on the best information available to reflect the amount the Corporation 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 approved 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.

3. Significant accounting policies - continued

k) Rate regulated accounting policies

Regulatory deferral accounts

Regulatory deferral accounts in these financial statements are accounted for differently than they would be in the absence of rate regulation. Where regulatory decisions dictate, the Corporation defers certain costs or revenues as regulatory deferral account debit balances or regulatory deferral account credit balances on the Consolidated Statement of Financial Position and recognized them in the net movement in regulatory deferral account balances in the Consolidated 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 an annual 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 Corporation'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 Corporation's adoption of IFRS 14, such amounts would be recorded in income as earned.

Note 10 describes the individual regulatory regulatory deferral accounts, the Corporation's related regulatory deferral and amortization policies and describes the related account activity in the relevant periods.

l) Provision for asset retirement obligations

The Corporation 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.

m) Provision for environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Corporation 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.

3. Significant accounting policies - continued

If the likelihood of the Corporation'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 Corporation reviews its provision for environmental liabilities on an ongoing basis and any changes are recognized in net income for the current period.

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

o) 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 Corporation's grid. Under a power purchase agreement, the customer has the financial responsibility for decommissioning expenses to be performed by the Corporation on its behalf. Any amounts not required for decommissioning will be refunded to the customer. This money accrues interest at the rate equal to the three month Canadian Dealer Offered Rate ("CDOR").

p) Post-employment benefits and other comprehensive income
The Corporation 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 Corporation also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Corporation contributes amounts to the pension plans as recommended by an independent actuary.

For the defined benefit plan, the cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Remeasurements of the net defined benefit liability, including actuarial gains and losses and return on plan assets, are recognized in other comprehensive income ("OCI") and are not reclassified to net income in a subsequent period. The Corporation'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.

Employees joining the Corporation 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 Corporation to cover the current service cost of this defined contribution retirement plan. The Corporation 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 Corporation.

q) New standards and interpretations not yet adopted
A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2016, 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*.

3. Significant accounting policies - continued

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 Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Corporation anticipates the adoption of IFRS 15 to have an impact on the financial statements, however, the extent of the anticipated impact is not known at this time.

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 Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Corporation is currently assessing the impact on 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 Corporation is currently assessing the impact on its financial statements.

4. Significant judgements and estimates

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 estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarized below.

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

Impairment of long-lived assets - Notes 3h) and 8
An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Management continually monitors the Corporation's operations and makes judgements and assessments about conditions and events in order to conclude whether possible impairment exists.

Asset retirement obligations - Notes 3l) and 23
In determining the present value of the obligation, the Corporation must estimate the amount and timing of the future cash payments and then apply an appropriate risk-free interest rate. Any change to the anticipated amount, timing of future payments or risk-free interest rate can result in a change to the obligation.

4. Significant judgements and estimates - continued

Depreciation and amortization - Notes 3h), 3i), 8 and 9
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 the period of disposition.

Intangible assets - Notes 3i) and 9
In determining when to recognize costs as intangible assets, management makes judgements about when the criteria for recognition are met. Changes to management's judgements would affect the carrying amount of its intangible assets and amortization recognition.

Regulatory deferral account debit and credit balances - Notes 3k)(i,ii) and 10
The Corporation 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 judgements in their interpretation.

Post-employment benefits - Notes 3p) and 10
The Corporation 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 Corporation 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 17
The Corporation estimates usage not yet billed at year end, which is included in revenues from sales 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 3l), 3m), 21 and 22
Management is required to make judgements 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 judgements 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 Corporation 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 24
The Corporation enters into financial instrument arrangements which may require management to make judgements 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*.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

4. Significant judgements and estimates - continued

Key judgements 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.

5. Accounts receivable

		2016		2015
Wholesale energy sales	$	3,734	$	3,549
Retail energy sales		1,441		1,321
Due from related parties (Note 20)		1,159		1,594
Other		696		702
	$	**7,030**	$	7,166

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

		Current		31 - 90 Days		Over 90 Days		**Total**
Accounts receivable	$	6,717	$	207	$	116	$	7,040
Allowance for doubtful accounts						(10)		(10)
	$	**6,717**	**$**	**207**	**$**	**106**	**$**	**7,030**

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

		Current		31 - 90 Days		Over 90 Days		**Total**
Accounts receivable	$	6,429	$	192	$	555	$	7,176
Allowance for doubtful accounts						(10)		(10)
	$	**6,429**	**$**	**192**	**$**	**545**	**$**	**7,166**

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

		2016		2015
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)

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

6. Inventories

	2016	2015
Materials and supplies	$ 3,088	$ 3,105
Diesel fuel	299	333
Liquefied natural gas	211	176
	$ 3,598	$ 3,614

The amount of inventory expensed during the year is $1,169,000 (2015 - $781,000) for fuel as disclosed in Note 18 and $86,000 (2015 - $75,000) for materials and supplies.

7. Direct financing lease

The Corporation's investments in direct financing leases are summarized as follows:

	2016	2015
Direct financing leases	$ 117	$ 162
Less: current portion	-	45
	$ 117	$ 117

In 2003, the Corporation financed an electric boiler system for the Yukon Hospital Corporation at a cost of $595,898. The repayment terms on this lease stipulate that one half of the realized energy cost savings resulting from the boiler usage during the year will be repaid against the investment. Interest on this investment is earned at the rate of 7.5% per annum and recognized as interest income.

8. 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, 2014	$ 230,349	$ 139,440	$ 13,444	$ 3,234	$ 47,951	**$ 434,418**
Additions	-	-	-	-	22,255	**22,255**
Transfers	44,519	15,908	1,913	359	(62,699)	**-**
Disposals	(21)	-	-	(112)	-	**(133)**
At December 31, 2015	274,847	155,348	15,357	3,481	7,507	**$ 456,540**
Additions	680	-	138	784	10,667	**12,269**
Transfers	3,100	2,834	882	-	(6,816)	**-**
Disposals	-	-	(635)	(311)	-	**(946)**
At December 31, 2016	**$ 278,627**	**$ 158,182**	**$ 15,742**	**$ 3,954**	**$ 11,358**	**$ 467,863**

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

8. Property, plant and equipment - continued

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
Accumulated depreciation:						
At December 31, 2014	$ 4,120	$ 3,820	$ 759	$ 270	-	**$ 8,969**
Depreciation	4,903	4,124	802	290	-	**10,119**
Disposals	(1)	-	-	(39)	-	**(40)**
At December 31, 2015	9,022	7,944	1,561	521	-	**$ 19,048**
Depreciation	5,525	4,260	823	285	-	**10,893**
Disposals	-	-	(635)	(245)	-	**(880)**
At December 31. 2016	**$ 14,547**	**$ 12,204**	**$ 1,749**	**$ 561**	**$ -**	**$ 29,061**
Net book value:						
At December 31, 2015	$ 265,825	$ 147,404	$ 13,796	$ 2,960	$ 7,507	**$ 437,492**
At December 31, 2016	$ 264,080	$ 145,978	$ 13,993	$ 3,393	$ 11,358	**$ 438,802**

Included in generation depreciation is the annual depreciation for overhauls of $802,000 (2015 - $778,000) which is recorded in regulatory account expenses in Note 10. The AFUDC capitalized for 2016 was $819,000 (2015 - $714,000). The AFUDC rate estimate was 2.4% for 2016 (2015 - 2.46%)

9. 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 License	Thermal and Water Licensing	**Subtotal see next page**
Cost:						
At December 31, 2014	$ 112	$ 443	$ 2,406	$ 2,991	$ 2,210	**$ 8,162**
Additions	281	-	-	51	306	**638**
Acquisitions	69	-	-	-	-	**69**
Disposals	-	-	-	(10)	-	**(10)**
At December 31, 2015	462	443	2,406	3,032	2,516	**8,859**
Additions	66	-	-	955	297	**1,318**
Acquisitions	-	-	-	-	-	**-**
Disposals	(8)	-	-	-	-	**(8)**
At December 31, 2016	**$ 520**	**$ 443**	**$ 2,406**	**$ 3,987**	**$ 2,813**	**$ 10,169**
Accumulated amortization:						
At December 31, 2014	$ 28	$ 64	$ 284	$ 524	$ 14	**$ 914**
Amortization	33	64	284	524	58	**963**
Disposals	-	-	-	(10)	-	**(10)**
At December 31, 2015	61	128	568	1,038	72	**1,867**
Amortization	92	64	283	524	58	**1,021**
Disposals	-	-	-	-	-	**-**
At December 31, 2016	**$ 153**	**$ 192**	**$ 851**	**$ 1,562**	**$ 130**	**$ 2,888**

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

9. Intangible assets - continued

Net book value:						
At December 31, 2015	$ 401	$ 315	$ 1,838	$ 1,994	$ 2,444	**$ 6,992**
At December 31, 2016	$ 367	$ 251	$ 1,555	$ 2,425	$ 2,683	**$ 7,281**

The internally generated costs and externally purchased costs for Software and Financial Software are approximately 50% internal and 50% external at December 31, 2016 and December 31, 2015. All other categories are almost exclusively internally generated.

10. Regulatory accounts

Regulatory deferral account debit balances

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	**Total**
Cost:							
At December 31, 2014	$ 20,794	$ 566	$ 4,144	$ 917	$ 332	$ 300	**$ 27,053**
Costs incurred	4,110	-	343	1,229	144	193	**6,019**
Regulatory provision	-	-	-	(502)	-	(226)	**(728)**
Disposals	(183)	-	-	-	(332)	-	**(515)**
Contributions received	(6,166)	-	(127)	-	-	-	**(6,293)**
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**
Accumulated amortization:							
At December 31, 2014	$ 3,342	$ 339	$ 1,099	$ -	$ 308	$ -	**$ 5,088**
Amortization	1,185	114	246	-	24	-	**1,569**
Disposals	(183)	-	-	-	(332)	-	**(515)**
At December 31, 2015	4,344	453	1,345	-	-	-	**6,142**
Amortization	25	113	248	-	-	-	**386**
Disposals	(2,051)	(566)	(794)	-	-	-	**(3,411)**
At December 31, 2016	**$ 2,318**	**$ -**	**$ 799**	**$ -**	**$ -**	**$ -**	**$ 3,117**
Net book value:							
At December 31, 2015	$ 14,211	$ 113	$ 3,015	$ 1,644	$ 144	$ 267	**$ 19,394**
At December 31, 2016	$ 18,230	$ -	$ 3,461	$ 2,216	$ 148	$ 1,059	**$ 25,114**
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 consolidated statement of operations and other comprehensive income):							
December 31, 2015	$ (3,241)	$ (114)	$ (30)	$ 727	$ 120	$ (33)	**$ (2,571)**
December 31, 2016	$ 4,019	$ (113)	$ 446	$ 572	$ 4	$ 792	**$ 5,720**
Remaining recovery years							
At December 31, 2015	5 to 10 years	1 year	10 to 45 years	Indeterminate	5 years	Indeterminate	-
At December 31, 2016	5 to 10 years	0 years	10 to 45 years	indeterminate	4 years	Indeterminate	-
Absent rate regulation, net income would increase (decrease) by:							
December 31, 2015	$ 3,241	$ 114	$ 30	$ (727)	$ (120)	$ 33	**$ 2,571**
December 31, 2016	$ (4,019)	$ 113	$ (446)	$ (572)	$ (4)	$ (792)	**$ (5,720)**

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

Regulatory deferral account debit balances - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	Deferred Gains and losses (ix)	Total
Cost:					
At December 31, 2014	$ 27,053	$ 943	$ 19	$ -	$ 28,015
Costs incurred	6,019	900	-	-	6,919
Regulatory provision	(728)	-	-	-	(728)
Disposals	(515)	-	-	-	(515)
Contributions received	(6,293)	-	(15)	-	(6,308)
At December 31, 2015	25,536	1,843	4	-	$ 27,383
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
Accumulated amortization:					
At December 31, 2014	$ 5,088	$ -	$ -	$ -	$ 5,088
Amortization	1,569	-	-	-	1,569
Disposals	(515)	-	-	-	(515)
At December 31, 2015	6,142	-	-	-	6,142
Amortization	386	-	-	-	386
Disposals	(3,411)	-	-	-	(3,411)
At December 31, 2016	$ 3,117	$ -	$ -	$ -	$ 3,117
Net book value:					
At December 31, 2015	$ 19,394	$ 1,843	$ 4	$ -	$ 21,241
At December 31, 2016	$ 25,114	$ 2,768	$ (2)	$ -	$ 27,880
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 consolidated statement of operations and other comprehensive income):					
December 31, 2015	$ (2,571)	$ 900	$ (15)	$ -	$ (1,686)
December 31, 2016	$ 5,720	$ 925	$ (6)	$ -	$ 6,639
Remaining recovery years					
At December 31, 2015		Indeterminate	1 year		
At December 31, 2016		Indeterminate	1 year		
Absent rate regulation, Net Income would increase (decrease) by:					
December 31, 2015	$ 2,571	$ (900)	$ 15	$ -	$ 1,686
December 31, 2016	$ (5,720)	$ (925)	$ 6	$ -	$ (6,639)

(a) Regulatory deferral account debit balances

(i) Feasibility studies and infrastructure planning

The Corporation 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.

10. Regulatory accounts - continued

(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.

(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 Corporation 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 Corporation 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 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 Corporation was directed by YUB Order 2013-01 to defer all overhaul costs incurred after 2011 until the Corporation 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 $119,000 (2015 - $122,000) and the associated depreciation on these overhauls of $802,000 (2015 - $778,000) are shown as a regulatory deferral account debit balance.

(viii) Fuel price adjustment

OIC 1995/90 directs the YUB to permit the Corporation 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.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

(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.

Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing Reserve (ii)	Diesel Contingency Fund (iii)	Future Removal and Site Restoration Costs (iv)	**Total**
Cost:					
At December 31, 2014	$ 11,122	$ 224	$ 9,627	$ 4,671	**$ 25,644**
Costs incurred	-	(213)	-	(304)	**(517)**
Regulatory provision	-	550	-	-	**550**
Cash received	-	-	2,027	-	**2,027**
Cash refunded	-	-	(759)	-	**(759)**
At December 31, 2015	11,122	561	10,895	4,367	**26,945**
Costs incurred	-	(138)	-	(8)	**(146)**
Regulatory provision	-	550	-	-	**550**
Cash received	-	-	1,054	-	**1,054**
Cash refunded	-	-	(2,464)	-	**(2,464)**
At December 31, 2016	**$ 11,122**	**$ 973**	**$ 9,485**	**$ 4,359**	**$ 25,939**
Accumulated amortization:					
At December 31, 2014	$ 5,648	$ -	$ -	$ -	**$ 5,648**
Amortization	249	-	-	-	**249**
Disposals	-	-	-	-	**-**
At December 31, 2015	5,897	-	-	-	**5,897**
Amortization	250	-	-	-	**250**
Disposals	-	-	-	-	**-**
At December 31, 2016	**$ 6,147**	**$ -**	**$ -**	**$ -**	**$ 6,147**
Net book value:					
At December 31, 2015	$ 5,225	$ 561	$ 10,895	$ 4,367	**$ 21,048**
At December 31, 2016	$ 4,975	$ 973	$ 9,485	$ 4,359	**$ 19,792**
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 consolidated statement of operations and other comprehensive income):					
December 31, 2015	$ 249	$ (337)	$ (1,268)	$ 304	**$ (1,052)**
December 31, 2016	$ 250	$ (412)	$ 1,410	$ 8	**$ 1,256**
Remaining recovery years					
At December 31, 2015	21 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2016	20 years	Indeterminate	Indeterminate	Indeterminate	
Absent rate regulation, net income would increase (decrease) by:					
December 31, 2015	$ (249)	$ 337	$ 1,268	$ (304)	**$ 1,052**
December 31, 2016	$ (250)	$ 412	$ (1,410)	$ (8)	**$ (1,256)**

10. 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 Corporation has established a deferral account for future regulatory hearing costs. In accordance with the order the Corporation recognized a provision of $550,000 of hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. Variances between the annual provision and actual costs are deferred until the following GRA or until a specific application is 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.

(iii) Diesel Contingency Fund and Energy Reconciliation Adjustment

The Diesel Contingency Fund ("DCF") was established by YUB Order 1996-6 through the negotiated settlement process. The DCF is used to reimburse the Corporation 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 Corporation through its line of credit. The Corporation is required to file quarterly reports with the YUB on the DCF's activity.

As part of the 2012/13 GRA, the Corporation 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 Corporation 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 Corporation 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 Corporation is to make an application to the YUB requesting recovery or a refund to customers. In accordance with YUB Order 2015-06, the Corporation is providing a refund to the customers of 0.68 cents/kWh effective September 1, 2015.

In the 2012/13 GRA, the Corporation 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 Consolidated 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 Corporation's net income in the year incurred.

10. Regulatory accounts - continued

(iv) Future removal and site restoration costs

The Corporation maintains a regulatory provision for future removal and site restoration costs 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 Corporation. 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 Corporation 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 $8,585,000 (2015 - $6,919,000) and regulatory account credit balances of $146,000 (2015 - $517,000). Total regulatory expenses were $8,731,000 (2015 - $7,436,000) 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 $7,895,000 (2015 - ($2,738,000)) and represents the adjustment to the net income for the year before net movements in regulatory deferral account balances for the effects of rate regulation in accordance with IFRS 14. The net movement figure of $7,895,000 is comprised of higher net income of $6,639,000 and $1,256,000 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 $(2,738,000) for 2015 is comprised of lower net income of $(1,686,000) and $(1,052,000) for both regulatory account debit balances and regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

11. Accounts payable and accrued liabilities

	2016	2015
Trade payables	$ 7,473	$ 6,176
Employee compensation	989	885
Due to related parties (Note 20)	654	460
Other	50	42
	$ 9,166	$ 7,563

12. Construction financing

	2016	2015
Construction financing due March 31, 2016, bearing interest at 1.12%, approved to a maximum of $21.2 million	$ -	$ 21,200
Construction financing due March 31, 2016, bearing interest at 1.12%, approved to a maximum of $18 million	-	18,000
Construction financing due March 31, 2018, bearing interest at 1.44%, approved to a maximum of $21.2 million	$ 21,200	$ -
Construction financing due March 31, 2018, bearing interest at 1.44%, approved to a maximum of $18 million	18,000	-
	$ 39,200	$ 39,200

The Corporation's construction financing is summarized as follows:

	2016	2015
Current portion of construction financing	$ -	$ 39,200
Long-term construction financing	39,200	-
	$ 39,200	$ 39,200

Construction financing balances are monies advanced from the Yukon Government to assist in the development of the Corporation's infrastructure. Interest is payable annually at December 31 and at the maturity date. Construction financing due December 31, 2016 was refinanced during the year.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

13. Long-term debt

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

	2016	2015
Bond The Corporation issued a bond at a fixed interest rate of 5.0% per annum. Interest is payable semi-annually. Principal payment is due when the bond expires on June 29, 2040 (i).	$ 98,359	$ 98,323
The Toronto Dominion Bank The Corporation 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 2.92% per annum. Principal drawdowns are monthly with the balance due on December 27, 2017 (ii).	2,000	3,944
The Toronto Dominion Bank The Corporation entered into an interest rate swaps 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 4.82% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017 (ii).	280	1,408
The Toronto Dominion Bank The Corporation 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 (ii).	9,697	10,036
TD Canada Trust $12,400,000 term note bearing interest at 4.02% payable in monthly installments of $94,406 interest and principal, with the balance due September 30, 2016. The note is guaranteed by the Yukon Government.	-	836
Tr'ondek Hwech'in First Nation loan The loan from the First Nation is related to the construction of the Mayo Dawson Transmission Line and is repayable in equal annual principal repayments of $125,000 with the final payment due in 2049. The interest rate at 7.19% (2015-7.29%) is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	4,125	4,250
Na-Cho Nyak Dun First Nation loan The loan from the First Nation is related to the construction of the Mayo B project and is repayable in equal annual principal repayments of $38,888 with the final payment due in 2094. The interest rate of 8.14% (2015-8.39%) is based on the actual rate of return earned by the Utility.	3,375	3,418

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

13. Long-term debt - continued

Chu Niikwan Limited Partnership loan The loan from the First Nation is related to the construction of the Liquid Natural Gas generation equipment and is repayable in equal annual principal repayments of $839,360 with the final payment due in 2040. The interest rate of 4.47% (2015 - 4.47%) is based on a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	20,146	20,984
Carmacks Stewart First Nation liability Long-term liability payable to several First Nations related to the construction of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028.	220	251
Total	**138,202**	143,450
Less: current portion	3,667	5,287
	$ 134,535	$ 138,163

(i) Bond

The Corporation issued a bond in 2010 for the face value of $100 million. The interest rate is 5% and the bond matures June 29, 2040. There are no principal payments due until the bond matures and interest is payable semi-annually. The bond was issued at a discount of $0.7 million which is being amortized over the period of the related debt using the effective interest rate. Transaction costs were $1.2 million and includes fees paid to agents and advisors and are presented as a reduction from the carrying value of the related debt and are amortized over the period of the related debt using the effective interest rate.

(ii) TD Bank Loan and Interest Rate Swap

On December 28, 2012, the Corporation 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:

2017	$ 3,667
2018	1,395
2019	1,385
2020	1,395
2021	1,395
Thereafter	128,965
	$ 138,202

Fair value

The fair value of long-term debt at December 31, 2016 is $165 million (December 31, 2015 - $181 million). The fair value for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

14. Post-employment benefits

Characteristics of benefit plans

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

Employees joining the Corporation after January 1, 2002 are not eligible to participate in the employee defined benefit plan. The Corporation 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 Corporation's contribution to the plan. During 2016, these were $448,000 (2015 - $446,000).

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 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 Corporation make special payments as prescribed by the Office of the Superintendent of Financial Institutions to repay any unfunded liability or deficit that may exist. For the employee pension plan, the Corporation is required to pay $225,300 as minimum annual payment in each of the next 12 years (2015 - $323,700 in each of the next 12 years).

A committee of the Corporation'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 Corporation 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.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

14. Post-employment benefits - continued

Net defined benefit liability

	2016	2015
Present value of benefit obligations		
Balance, beginning of year	$ 20,793	$ 20,690
Employee contributions	84	89
Current service cost	493	544
Interest cost	868	847
Benefits paid	(458)	(397)
Actuarial losses (gains) on experience	539	(657)
Actuarial losses (gains) on financial assumptions	661	(323)
Balance, end of year	**$ 22,980**	$ 20,793
Fair value of plan assets		
Balance, beginning of year	15,357	14,672
Interest income on plan assets	638	599
Gain (losses) on plan assets	716	(468)
Employee contributions	84	89
Employer contributions	781	905
Benefits paid	(421)	(360)
Administrative costs	(42)	(80)
Balance, end of year	**17,113**	15,357
Net defined benefit liability	**$ 5,867**	$ 5,436

Components of benefit plan cost

	2016	2015
Current service cost	493	544
Interest cost	868	847
Interest income on plan assets	(638)	(599)
Administrative costs	42	80
Defined benefit expense in Consolidated Statement of Operations	**765**	872
Defined contribution expense	448	446
Total benefit expense in Consolidated Statement of Operations	**$ 1,213**	$ 1,318
Actuarial losses (gains) on obligation	1,200	(980)
Losses (gains) on plan assets	(717)	468
Total re-measurement included in Other Comprehensive Income	**483**	(512)
Total benefit cost recognized in the Consolidated Statement of Operations and Other Comprehensive Income	**$ 1,696**	$ 806

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

14. Post-employment benefits - continued

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

	December 31, 2016	December 31, 2015
Equities	54.9%	52.4%
Fixed income securities	35.9%	36.8%
Real estate	9.2%	10.8%

Significant assumptions:

	December 31, 2016	December 31, 2015
Discount rate - accrued benefit obligation	3.90% - 4.00%	4.10% - 4.50%
Assumed rate of salary escalation	2.80% - 3.50%	3.00% - 3.50%
Pension growth	2.00% - 2.50%	2.00% - 2.50%

Sensitivity Analysis:
The sensitivities of 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, 2016

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.10%	17.97%	$(3,241)	$4,129
Salary growth	2.55%	-2.41%	550	(521)
Pension growth	14.22%	-11.74%	3,071	(2,537)
Life expectancy (1 year movement)	2.41%	-2.43%	555	(559)

Assumptions and sensitivity as at December 31, 2015

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

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

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 Consolidated Statement of Financial Position.

The Corporation 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 (2015 - 16.6 years).

The Corporation expects to make payments of $706,000 (2015 - $871,000) to the defined benefit plans during the next financial year.

15. Contributions in aid of construction

	Government of Canada	Customers since 1998	Yukon Government since 1998	Pre - 1998 contributions	**Total**
Cost:					
At December 31, 2014	$ 71,000	$ 24,003	$ 17,959	$ 1,739	**$ 114,701**
Additions	-	578	161	-	**739**
At December 31, 2015	71,000	24,581	18,120	1,739	**115,440**
Additions	-	272	58	-	**330**
At December 31, 2016	**$ 71,000**	**$ 24,853**	**$ 18,178**	**$ 1,739**	**$ 115,770**
Accumulated amortization:					
At December 31, 2014	$ 3,048	$ 7,581	$ 2,915	$ 1,249	**$ 14,793**
Additions	991	1,180	379	43	**2,593**
At December 31, 2015	4,039	8,761	3,294	1,292	**17,386**
Additions	990	1,186	384	44	**2,604**
At December 31, 2016	**$ 5,029**	**$ 9,947**	**$ 3,678**	**$ 1,336**	**$ 19,990**
Net book value:					
At December 31, 2015	$ 66,961	$ 15,820	$ 14,826	$ 447	**$ 98,054**
At December 31, 2016	$ 65,971	$ 14,906	$ 14,500	$ 403	**$ 95,780**

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

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

16. Decommissioning fund

	2016	2015
Opening balance	$ 2,612	$ 2,586
Interest	24	26
Closing balance	**$ 2,636**	$ 2,612

17. Sales of power

	2016	2015
Wholesale	$ 28,641	$ 29,794
Industrial	4,506	4,230
General service	4,359	4,265
Residential	1,765	1,741
Secondary sales	371	544
Sentinel and street lights	96	100
	$ 39,738	$ 40,674

18. Operations and maintenance expenses

	2016	2015
Regulatory account expenses (Note 10 (c))	$ 8,731	$ 7,436
Wages and benefits	5,955	5,553
Contractors	1,692	1,826
Materials and consumables	1,173	1,143
Fuel	1,168	781
Travel	311	341
Rent	234	234
Communication	61	62
	$ 19,325	$ 17,376

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

19. Administration expenses

		2016		2015
Wages and benefits	$	6,311	$	6,262
Materials, consumables and general		2,408		978
Insurance and taxes		1,824		1,605
External labour		1,451		2,513
Licences and fees		658		614
Travel		188		191
Board fees		124		108
	$	**12,964**	$	12,271

20. Related party transactions

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

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

		2016		2015
Revenues				
Contributions from YG for Interim Electrical Rebate program	$	3,194	$	3,566
Contributions from YG for bond interest expense		2,625		2,455
Contributions from YG for Next Generation Hydro project expenses		907		2,071
Contributions from YG for feasibility studies for transmission facilities		825		2,000
Program cost reimbursement from YG		-		127

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

		2016		2015
YG				
Construction financing from YG	$	39,200	$	39,200
Accounts receivable	$	1,159	$	1,594
Accounts payable	$	654	$	460

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

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

20. Related party transactions - continued

Transactions with Key Management Personnel

The Corporation's key management personnel comprise of members of senior management and the board of directors, a total of 27 individuals (2014 - 26 individuals). Key management personnel compensation is as follows:

Year ended December 31,	**2016**	2015
Short-term employee benefits	$ 1,653	$ 1,913
Post-employment benefits	55	55
Retirement benefits	36	36
	$ 1,744	$ 2,004

21. Commitments

Aishihik water licence

The Yukon Territory Water Board issued a water use licence in 2002, valid until December 31, 2019, for the Corporation's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this licence commits the Corporation 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. These costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

Contractual obligations

The Corporation has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2016 as the product or service had not been provided. The total commitments at year end are $1,754,000 (December 31, 2015 - $5,712,000).

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 Corporation 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 Corporation is also required to reimburse the plaintiff for its legal costs and interest. The Corporation has recognized an estimate for this amount as a liability in the Consolidated Statement of Financial Position. The Corporation 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 Corporation has not recognized a provision for the closure and restoration obligations for certain generation, transmission and distribution assets which the Corporation anticipates maintaining and operating these assets for an indefinite period, making the date of retirements 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 Corporation'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 Corporation 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 Corporation 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 Corporation has conducted a full remediation. As at December 31, 2016 no environmental liabilities, for which a legal obligation exists to remediate, has been identified by the Corporation. The Corporation will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis. The Corporation does not have a provision for environmental liabilities as there is no present obligation to remediate.

24. Risk management and financial instruments

At December 31, 2016, the Corporation's financial instruments included cash, accounts receivable, finance lease receivables, accounts payable and accrued liabilities, construction financing, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, finance lease receivables, 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 discussed in Note 13.

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. The Corporation'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 Corporation by the financial institution that is the counterparty to the transactions.

The Corporation 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 Corporation'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, 2016, the Corporation had three interest rate swap agreements in place with notional principal amounts of $2 million, $9.7 million and $.3 million (December 31, 2015 - $4 million, $10 million, and $1 million). The agreements effectively change the Corporation's interest rate exposure on these notional amounts from floating rates to fixed rates of 2.92%, 2.69% and 4.82% respectively.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

24. Risk management and financial instruments - continued

The fair value of the interest rate swap agreements on December 31, 2016 was a liability of $429,000 (December 31, 2015 - liability of $660,000). The increase in the fair value in 2016 of $231,000 (2015 – decrease of $261,000) is recorded on the Consolidated Statement of Operations and Comprehensive Income as an unrealized gain. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of $519,000 (December 31, 2015 - $659,000).

The Corporation has access to a $17.5 million line of credit. 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 $2.5 million (2015 - $1.3 million). The Corporation has cash balances with the same financial institution with legal right of offset of $2.8 million (2015 - $2.8 million). Due to the short-term nature of the amount drawn on the line of credit and the Corporation'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 Corporation.

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

	2016	2015
Cash	$ 3,239	$ 13,634
Accounts receivable	7,030	7,166
Finance lease receivables	117	162
	$ 10,386	$ 20,962

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

Credit risk on accounts receivable is considered minimal as the Corporation has experienced insignificant bad debt in prior years. In addition, its primary customer is a rate regulated Corporation that purchases power from the Corporation for resale and as such these receivables are considered fully collectible. Included in the accounts receivable past due but not impaired at December 31, 2016 are $257,000 (2015 - $667,000) which management believes will be received in full.

Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through regular monitoring of cash and currency requirements by preparing cash flow forecasts to identify financing requirements. The Corporation'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 Corporation's reputation.

The Corporation had $17.5 million (December 31, 2015 - $17.5 million) in undrawn credit facilities at its disposal to further reduce liquidity risk. See Note 13 for contractual maturity analysis of long-term debt.

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

24. Risk management and financial instruments - continued

Fair values
The following table illustrates the fair value hierarchy of the Corporation'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	-	$429	-	**$429**
Long-term debt	-	-	$138,202	**$138,202**

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

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	**Total**
Derivative related liability	-	$660	-	**$660**
Long-term debt	-	-	$143,450	**$143,450**

25. Capital management

The Corporation's wholly owned subsidiary, the Utility, managed its equity by managing revenues, expenses, assets and liabilities to ensure their objectives are effectively achieved while remaining a going concern. For the purpose of this calculation capital is the Utility's equity which is comprised of share capital, contributed capital and accumulated funds in the form of retained earnings.

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

December 31, 2016 (tabular amounts in thousands of Canadian dollars)

25. Capital management - continued

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

	2016	2015
Long-term debt due within one year	$ 6,066	$ 6,066
Long-term debt	147,771	140,874
Total debt	**153,837**	146,940
Add provision for decommissioning of industrial customer spur line	2,636	2,612
Total debt to include in the calculation	**$ 156,473**	$ 149,552
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	52,555	46,303
Total shareholder's equity	**106,155**	99,903
Total capitalization	**$ 262,628**	$ 249,455
Total debt to total capitalization	**60 %**	60 %

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

26. Non-consolidated financial information

The nature and size of operations of the non-consolidated Yukon Development Corporation and its wholly-owned subsidiary, Yukon Energy Corporation differ substantially. Non-consolidated audited financial statements of the Yukon Development Corporation and audited financial statements of Yukon Energy Corporation for the year ended December 31, 2016 are also prepared.

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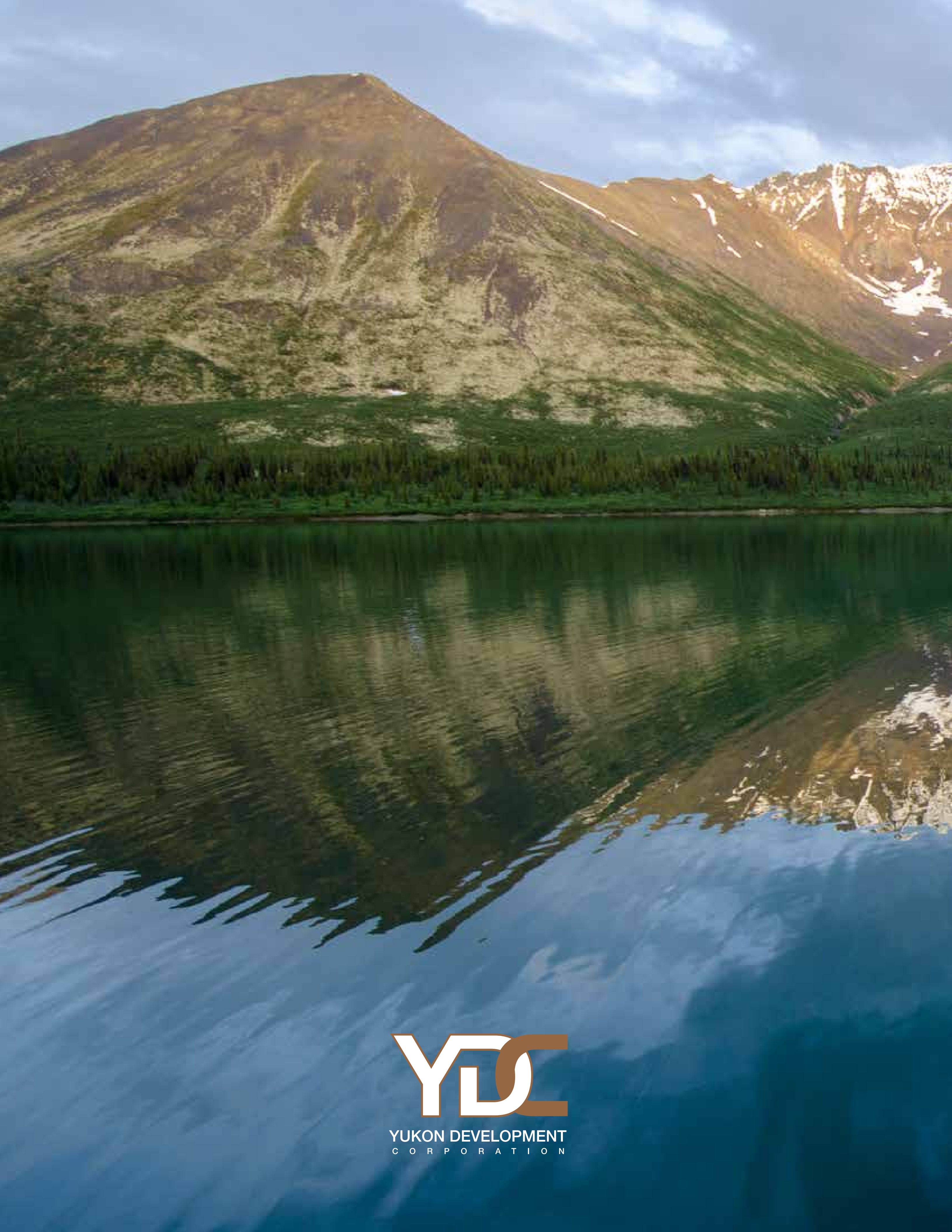
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