Yukon Energy Corporation

Annual Report 2013

YUKON ENERGY

Environmental Benefits Statement

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- Water: 2,775 L
- Energy: 450 kWhr
- Solid Waste: 37.5 kg
- Greenhouse Gases: 93.75 kg CO_2 equiv.

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Message from the President

Yukon Energy's 2013 annual report was prepared under our Board's direction and represents a balanced and accurate summary of the Corporation's economic, environmental and social performance for the calendar year ending December 31, 2013.

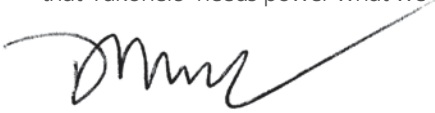
Yukon Energy's primary focus in 2013 was a continuation of our work of improving system reliability while making significant progress on projects/concepts aimed at ensuring an adequate supply of sustainable electricity to meet the growing demand and to address back-up requirements.

All our major projects and initiatives are outlined in detail in this report. Briefly, key projects include:

- Continued work on the Takhini/Whistle Bend project, which will allow us to service the new Whistle Bend subdivision in Whitehorse and improve reliability.
- Completing Phase 2 of the work necessary to refurbish the spillway gates and structures at our Whitehorse dam.
- Conducting overhauls on one of our older Aishihik hydro units, one of our Whitehorse hydro generators, and two of our diesels (one in Whitehorse; the other in Dawson City).
- Continued engaging with local stakeholders, First Nation governments and the general public on potential hydro enhancement initiatives, including one in the Southern Lakes and a second at Mayo Lake.
- Continuing research into other potential renewable energy options, including wind, solar, and small and medium hydro.
- Working with Yukon Electrical Company Limited to complete and file a Yukon-wide five-year Demand Side Management (DSM) plan with the Yukon Utilities Board.
- Carried out a number of DSM initiatives to help conserve electricity immediately.
- Submitted a Project Proposal to the Yukon Environmental and Socio-economic Assessment Board (YESAB) that will see up to three Whitehorse back-up diesel units being replaced by back-up natural gas units.

Of special note as well is Yukon Energy's continued excellent safety record. Our safety record was recognized this year by the Canadian Electricity Association (CEA) by way of a Vice President's Silver Award for top safety performance among utilities with fewer than 500 employees. This is the second year in a row we have received a Vice President's award for safety. It speaks to our employees' high standards of safe work practices, something we are very proud of.

As always, our ultimate goal is to achieve operational excellence. We measure our success by our ability to deliver safe, reliable and sustainable power to our customers, our ability to attract and retain a skilled and engaged workforce, our respect for the environment and for the communities and people we serve, and our recognition that Yukoners' needs power what we do.



David Morrison
President and CEO

Primary focus in 2013:
proving reliability to ensure that Yukoners have an adequate supply of sustainable energy to meet their growing demand.

10-year overhaul of one of our Whitehorse hydro units
Photo: Jim Petelski

Corporate Profile

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arm's length from the Yukon government. We are the main generator and transmitter of electrical energy in Yukon. We work with our parent company Yukon Development Corporation to provide Yukoners with a secure supply of energy that is sustainable (both economically and environmentally). Our focus is on renewable sources of power and energy solutions that complement our legacy hydro assets.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,800 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 129 megawatts of power. Ninety-two megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 37 megawatts at Aishihik and 15 megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Waters Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

Yukon Energy's 90 employees are highly skilled and committed people dedicated to their jobs, teammates and families. — sometimes, all at once!
Photo: Jim Petelski

Mandate

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

Vision

Yukon Energy has a vision for Yukon's energy future that embraces the social, economic and environmental needs of all Yukoners. Every decision we make is driven by that vision.

Values

Respect – we will operate with respect for one another

Teamwork – we will foster a team based approach to all of our challenges

Integrity – we will act with integrity at all times

Safety – we will prioritize safety and employee wellness in all our actions

Transparency – we will operate in a manner that ensures we are transparent and accountable to our customers and Yukon residents

Strategic Priorities for 2013

These are the priorities Yukon Energy set out for itself at the beginning of 2013:

Develop Sustainable Energy Solutions to Meet Forecast Demand

Yukon Energy is first and foremost a renewable energy company. In 2013, 99.5 percent of the electricity we produced was with renewable sources. A key strategic priority is that Yukon Energy continues to provide renewable energy for base generation now and into the future.

> Work towards bringing into service new supply projects that will provide at least 100 gigawatt hours (GWh) per year of sustainable energy by the end of 2014.

> Acquire funding or new methods of risk financing to enable Yukon Energy to plan for new projects without a requirement for equity returns or ratepayer risk.

> Procure financing that will enable Yukon Energy to build the projects and mitigate ratepayer risk over the long-term.

> Continue the development of a partnership and investment plan to build new energy projects with Yukon First Nation partners.

> Continue with our ongoing series of public discussions on energy challenges and technology opportunities that will support Yukon Energy's commitment to meaningful public engagement on energy planning.

> Work with the Yukon government regarding policy initiatives; specifically the IPP and Net Metering Policies currently being developed.

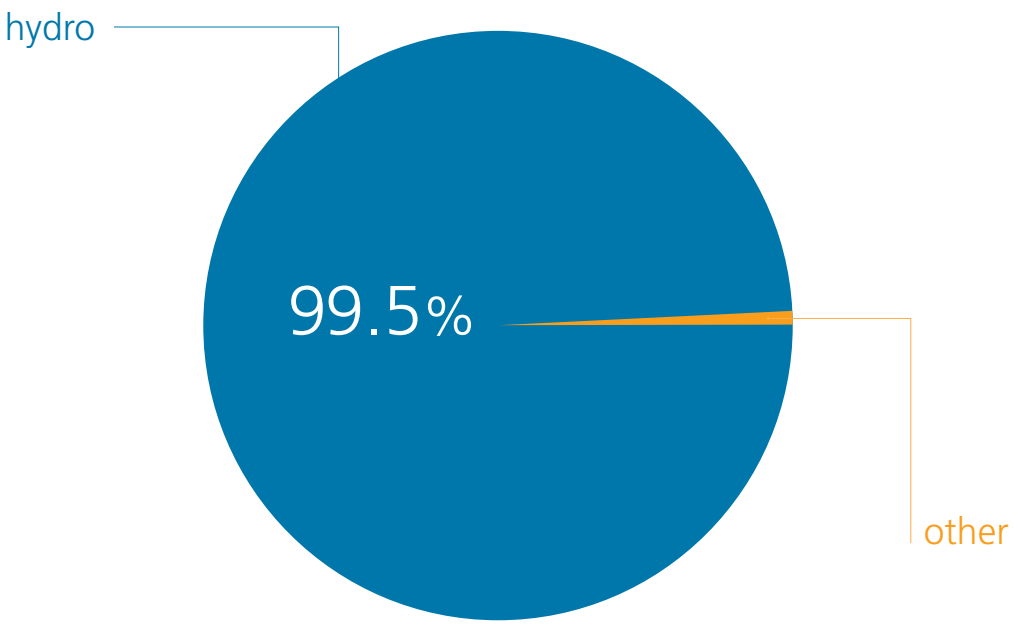
> Continue engaging with Yukoners to find sustainable energy solutions in both the short and long term.

Optimize System Reliability and Efficiency

> Continue to implement operational training and staff development plans to enhance the integration of the Mayo–Dawson and Whitehorse–Aishihik–Faro grids.

> Continue to implement operational plans for the Aishihik plant that incorporate the addition of the Aishihik third turbine into the system.

Reliability Priority: to meet or exceed national standards in system reliability and decrease controllable outages in 2013.



- Continue to implement new operational protocols for the operation and integration of the Mayo B hydro project into the generation system.
- Continue the operational review of systems efficiencies and implement capital upgrades that support system reliability.
- Improve system reliability to meet or exceed national standards and continue to decrease controllable outages on the new integrated grid in 2013.
- Continue system impact reviews to ensure new customer loads and/or generation do not adversely affect system reliability.

Secure Project Capital Financing

- Achieve Yukon Energy's applied for Return on Equity
- Identify sources of existing funding for both project planning and project construction.
- Establish a framework for financing new generation projects to mitigate risk that includes long-term capital contributions and financing support.

Implement an Energy Conservation/Efficiency (Demand Side Management) Program

- Submit a completed electricity conservation/efficiency plan to the Yukon Utilities Board for approval.
- Establish evaluation criteria and verification tools for utility led electricity conservation programs.
- Upon approval, implement Year 1 of a five-year electricity conservation plan in partnership with Yukon Electrical Company Limited.
- Build on industrial energy conservation measures implemented in 2012; extend industrial energy conservation measures to include a second mine in 2013.
- Deliver public education though advertising, web tools, training and adult education, public outreach and engagement, youth and school initiatives.
- Assist communities, organizations, partners and government agencies in the development of programs, projects and policies that are complimentary to energy conservation.
- Lead by example through internal energy conservation/efficiencies at Yukon Energy.

Our Employees

Yukon Energy employs approximately 90 employees. We recognize a talented and aligned workforce is crucial for bringing strategy to life and ensuring an organization delivers on its corporate vision and objectives. To maintain and enhance the skills needed to achieve our business objectives, we continually strive to:

Human Resources

> attract, recruit and retain a competent work force that shares our values and is motivated to help sustain and improve the company's assets;

> offer our employees regular opportunities for professional development to ensure a high level of skill, expertise and leadership; and

> ensure succession planning and the transfer of critical knowledge.

Recognition and Congratulations

We would like to recognize the following employees for significant achievements in 2013:

> Paul Leslie and Willy Mckenna for successfully completing their Power System Electrician apprenticeships;

> Bevon Keefer for completing the Systems Control Centre Operator criteria for recognition;

> Travis Ritchie for receiving a Clean50 sustainability award for his commitment to and work in the area of sustainability. The awards are presented each year to 50 individuals or small teams who have done the most to advance the cause of sustainability in Canada; and

> Yukon Energy in being recognized by the Canadian Electricity Association (CEA) with the silver award for top safety performance among small Canadian utilities (fewer than 500 employees). This is the second year in a row that Yukon Energy has received a safety award from the CEA.

We would also like to congratulate our 2013 Long Service Award recipients:

20 Years
Mike Hannah

15 Years
Tom Debolt
Wendy Fendrick
Bob Gingras
Linda Greer
Tara Schultz

10 Years
George Burns
Al Porter

5 years
Myrna Engren
Jaeson Henderson
Mai Ho
Christina McGillivray

Summary of Utility Operations

	2013	2012	2011	2010	2009	2008
Generating Capacity (in MW)						
Hydro	92	92	92	75	75	75
Diesel	36	36	36	36	36	36
Wind	1	1	1	1	1	1
Total	**129**	**129**	**129**	**112**	**112**	**112**
Peak Demand (in MW)						
WAF System	Connected	Connected	Connected	67	65	64
Mayo	to Grid	to Grid	to Grid	7	5	5
Total	**83**	**83**	**77**	**74**	**70**	**69**
Generation (in GWh)						
Whitehorse Rapids	221	230	232	234	224	206
Aishihik	138	143	132	112	119	107
Mayo	62	50	21	32	29	28
Wind	0	0	0	0	0	0
WAF Diesel	2	3	8	3	2	1
Other Diesel	0	0	8	2	1	0
Total	**423**	**427**	**401**	**383**	**375**	**342**
Electric Sales (in $000)						
Residential	1,968	1,870	1,800	1,524	1,535	1,523
General Service	3,668	3,527	3,342	3,315	3,007	2,804
Industrial	4,484	4,716	4,599	3,311	3,191	329
Wholesale	28,353	26,408	24,170	23,301	22,291	22,999
Secondary Sales	275	165	46	644	1,442	777
Other	94	91	90	83	81	86
Total	**38,842**	**36,777**	**34,047**	**32,178**	**31,547**	**28,518**
Electric Sales (MWh)						
Residential	13,593	13,289	12,834	11,398	11,596	11,359
General Service	22,301	22,446	21,538	22,570	20,042	18,523
Industrial	40,513	44,030	43,259	30,255	29,355	3,200
Wholesale	307,927	310,264	290,541	276,345	267,229	263,820
Secondary Sales	3,959	1,993	552	10,489	17,384	18,753
Total	**388,293**	**392,021**	**368,724**	**351,056**	**345,607**	**315,655**
Cents Per kWh						
Residential	14.48	14.52	14.03	13.37	13.24	13.41
General Service	16.44	16.16	15.52	14.69	15.00	15.14
Industrial	11.07	11.55	10.63	10.94	10.87	10.27
Wholesale	9.21	8.34	8.32	8.43	8.34	8.72
Secondary Sales	6.94	8.30	8.30	6.14	8.30	4.14

Ensuring Reliability of Service

We take our responsibility to provide reliable power very seriously. Several years ago, Yukon Energy embarked on an aggressive capital maintenance schedule that saw approximately two-thirds of our core capital budget go towards projects related to reliability. In 2013 we continued to work our way through a list of maintenance capital projects.

Outages

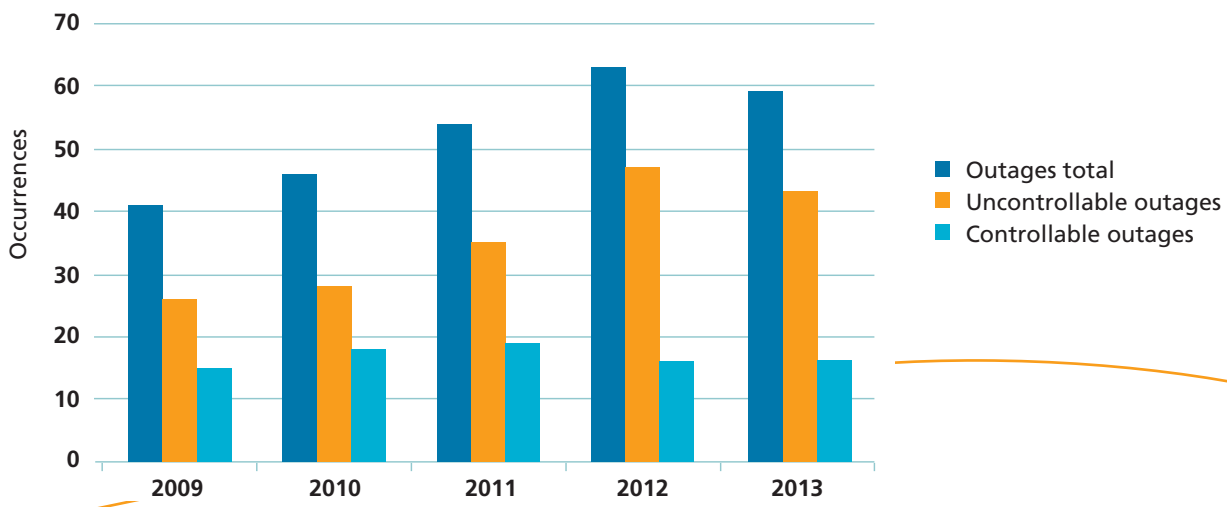
In 2013, we had a total of 59 power outages, compared to 63 outages in 2012.

In both 2013 and 2012, the majority of outages were beyond our control (weather related, trees on lines, etc.) In terms of controllable outages (equipment failure or human error), we have seen a decrease from two years ago, dropping from 19 in 2011 to 16 in both 2012 and 2013.

Also of note is the fact that for the third year in a row we did not have a grid-wide blackout. This shows the success of the modifications we have been making to our protection system. As the number of customers affected by an outage decreases, so does the amount of time required to restore power.

We will continue to work hard to decrease controllable outages throughout the territory. One initiative that will help address reliability is our Computerized Maintenance Management System that we began phasing in last year. This tool, when fully implemented, will improve our ability to plan for, budget for, and schedule equipment maintenance on a daily to multi-year basis.

Outage Data



Maintaining Our Right-of-Ways

Yukon Energy has hundreds of kilometres of transmission line and we must keep the right-of-ways under the lines clear to ensure reliability of our system. Currently we mow the right-of-ways and manually remove the trees under our powerlines. We have noticed, perhaps as a result of climate change, that we have had to devote more time and money recently to maintenance of our right-of-ways.

A couple of years ago we were asked by our regulator, the Yukon Utilities Board, to review our vegetation management practices. We hired a qualified environmental consultant who recommended that we incorporate the use of herbicides as part of our vegetation management program.

In 2013 we hired a second environmental consulting firm to get a second option and to look at what other power companies are using, what herbicides offer the lowest environmental risk, and which are most effective. They recommended several and we narrowed it down to a list of three that appear to be the safest and yet most effective. These three have all been approved as safe to use by Health Canada and are deemed to be non-toxic to humans and animals when used appropriately.

During the summer of 2013 we obtained the necessary permit from Environment Yukon and applied these herbicides to a series of small test plots in two locations near Whitehorse.

We will monitor these plots in 2014 and may do other testing before making any decision about whether to adopt herbicides as part of our integrated vegetation management program.

Third year in a row: Yukon experienced no grid-wide blackouts in 2013, thanks in part to our protection system modifications.

Mayo B Powerplant
Photo: Yukon Energy

The five-year DSM plan:
Yukon's most affordable, inclusive and environmentally responsible energy option.

Yukon Energy Ambassador Campaign
Photo: archbould.com

We're all about the plan, whether it's the big plans for our new house or little day-by-day plans to keep our electricity costs down—like the four clotheslines in the basement or the mattress warmer in our bedroom. By planning like we do, we're saving on our monthly bill and satisfying our social conscience.

Apparently, we're also saving electricity…

See how at **yukonenergy.ca/tips**

YUKON ENERGY

Meeting Demand

Yukon Energy is planning for the future in ways that will ensure a secure and continuous supply of energy that is sustainable, affordable and clean. Our goal is to meet the growing demand for electricity as much as possible with renewable energy, recognizing that there will likely be a need for some fossil fuel generation for some time to come. We pursued a number of initiatives in 2013 that are already enhancing or will enhance our infrastructure. Each initiative is outlined below.

Energy Conservation and Efficiencies

Yukon Energy recognizes that energy conservation is one of the most cost-effective, inclusive, and environmentally responsible supply options available to help us meet the near-term energy needs of the territory.

The main focus of the Energy Conservation department in 2013 was the completion of a Yukon-wide five-year Demand Side Management (DSM) plan with the Yukon Utilities Board. This plan was prepared jointly with Yukon Electrical Company Limited (YECL), and filed as part of YECL's General Rate Application to the Utilities Board.

The plan includes a suite of programs for residential and general service (commercial) customers. The residential programs include:

> LED lighting rebates;

> auto heater timer rebates;

> promotion of low-cost energy saving products; and

> heat pump pilot.

The general service programs include:

> lighting redesign and equipment incentive;

> high efficiency refrigeration;

> Energy Star computer incentives; and

> high-performance new construction incentive.

The DSM plan was submitted to the Yukon Utilities Board (YUB) in late May 2013. A decision is expected from the Utilities Board in the spring of 2014.

In the meantime, Yukon Energy is acting now on a number of fronts to help reduce the amount of electricity Yukoners use.

In early 2013 the corporation launched an energy conservation ambassador campaign. Ads and posters featured Yukon families, businesses and organizations that are working to save energy. Yukon Energy received very favourable response to the campaign from the general public.

Also in 2013 coupons for LED lighting and clotheslines were distributed to all households in Yukon. The uptake

was quite high (281 LED coupons and 26 clothesline coupons redeemed) for a simple mailout of coupons with no other promotion, marketing or communications work around the program. It shows that Yukoners are interested in LEDs especially and is a strong indicator that an incentive program coupled with a strong communications and marketing component stands to be very successful. Yukon Energy further promoted air drying over electric clothes dryers by distributing more than 1,000 packets of clothespins at the Lions tradeshow in April.

Throughout 2013 we hosted a monthly lunchtime speaker series called Conversations in Conservation. It featured a variety of Yukon presenters who covered a wide range of energy savings topics: everything from efficient lighting to green homes.

Natural Resource Canada's Yukon-customized Dollars to $ense Energy Management course, aimed at helping operations and management staff in small jurisdictions manage their energy usage, was delivered to the Village of Mayo.

Yukon Energy continued research in 2013 on the performance of LED streetlights. Staff installed and monitored three different types of LEDs in Mendenhall, a subdivision northwest of Whitehorse. This pilot will help Yukon Energy choose the most appropriate brand of LED streetlight (both in terms of cost and performance). The research will also help the corporation complete the economic analysis necessary to propose a rate schedule for LED streetlights.

To increase the efficiency of Yukon Energy's facilities, the corporation had lighting retrofits done of the Whitehorse hydro plants, Whitehorse warehouse and Dawson diesel plant. This resulted in electricity savings in 2013 of just under 98,000 kWh.

There was an audit completed at the Aishihik facility to identify and prioritize electricity savings projects at that plant.

An energy audit of Minto mine was completed with costs shared 50/50 between Capstone and Yukon Energy.

The corporation will pay Capstone an additional 25 percent of the audit costs if energy saving measures are implemented in 2014.

Yukon Energy continued to support Energy Solutions Centre's successful fridge retirement programs through a cost-share agreement.

Other 2013 Capital Projects

Here is a summary of the other major capital projects that Yukon Energy started or completed in 2013:

> Takhini/Whistle Bend – this project will allow us to service the new Whistle Bend subdivision in Whitehorse. In 2013 we completed about 95 percent of the foundation and civil work. Next year the foundation work will be finished, as will the electrical and structural work. The substation is expected to be in service in late 2014.

> Whitehorse spillway – two years ago we began refurbishing the spillway gates and structures at our Whitehorse dam. While most of the work was completed in 2012 and 2013, there is a final component that will be done in 2014

> Overhauls: we completed overhauls in 2013 on one of our Whitehorse hydro generators, one of our older Aishihik hydro units, and two of our diesel generators (in Whitehorse and Dawson City).

Walking the talk: switching to energy-efficient lighting in our facilities in 2013 saved 98,000 kWh. That's equivalent to the average annual electricity usage of eight Yukon homes..

Two for one: the Takhini Substation will serve new customers in Whistle Bend while improving reliability to the entire Yukon grid with state-of-the-art circuit protection.

Takhini substation project
Photo: archbould.com

Enhanced Storage Concept Studies

Yukon Energy is committed to optimizing our existing hydro infrastructure before developing new hydro projects. To this end, there are a number of enhancement concepts we are examining that could increase production at our Whitehorse and Mayo hydro facilities. These include increased storage ranges in the Southern Lakes (Marsh, Tagish and Bennett) and Mayo Lake, which together could increase the winter output of our Whitehorse and Mayo hydro facilities by up to 12 gigawatt hours per year on average. This is the energy equivalent of displacing approximately $2.5 to $3.0 million of diesel generated electricity annually.

In 2013, Yukon Energy continued engaging with local stakeholders, First Nation governments and the general public to explore the potential impacts and benefits of these potential projects.

New Medium and Small Hydro

Yukon Energy is exploring the next generation of new hydro development projects (i.e. 2012 to 2020 time frame). This includes possible sites on the upper reaches of the Pelly River (between 10 and 80 megawatts and up to 500 gigawatt hours a year), the Finlayson River (up to 17 megawatts and 120 gigawatt hours per year) and in the area of Moon Lake and Tutshi/Windy Arm in the Southern Lakes region (up to 12 megawatts and up to 70 gigawatt hours a year).

In 2013 we continued to collect stream flow data on the Upper Pelly River and on Moon Lake. The data will help us to refine power benefit estimates at each site. In 2014 we will install a flow gauge on the Finlayson River and will continue to collect flow data on the Pelly River and Moon Lake sites.

Wind

We continue to look for ways of using wind as a part of our renewable energy complement. Yukon Energy has completed an initial assessment of the wind regime on Tehcho (formerly Ferry Hill) near Stewart Crossing. The results are positive enough that we are now seriously looking at the feasibility of building up to a 20 megawatt wind farm on the site. In 2013 we continued to collect data using wind monitoring equipment installed at Tehcho two years ago. In 2014 we hope to have enough data to determine if a wind farm is indeed viable in the Tehcho area.

Also in 2013, Yukon Energy held a public workshop on wind that allowed Yukoners and wind experts to come together for a day of discussion about this renewable energy option.

Geothermal

Because Yukon is located in an area of the Pacific known as the Ring of Fire, the potential is good for finding significant geothermal resources that could be used to produce electricity. Early results show there is good geothermal potential in the Central Yukon and around Whitehorse, although much more work is needed before a decision could be made as to whether one or more geothermal plants would be feasible.

In 2013, the Kaska Tribal Council invited Yukon Energy to participate in their geothermal exploration program. Other project partners include CanNor, the Yukon government, and the Yukon Electrical Company Limited. Yukon Energy is assisting by providing technical expertise and support, sharing our geothermal research gathered to date, and acting as an advocate/champion for this energy source. We have also provided a small ($30,000) investment.

Biomass

Another concept Yukon Energy has been assessing for a possible energy source is to use fire kill and beetle kill wood, along with waste from sawmills, to produce electricity and district heat. A recent feasibility study suggests that a gasification plant in the Village of Haines Junction is not an economically viable project at this time for Yukon Energy. However, the Champagne and Aishihik First Nations are still interested in seeing whether there might be some potential on a smaller scale.

Yukon Energy is helping to support their work by offering technical and administrative expertise and support, sharing the results from previous biomass and district heating studies prepared for Yukon Energy, and by connecting our partners with key people in their field in other regions of Canada.

Liquefied Natural Gas

In addition to our hydro and wind assets, Yukon Energy currently maintains a complete back-up system of diesel engines. These generators are used in case of emergencies, winter peaking, and to provide support during drought years.

Some of these diesel generators are old and have reached the end of their lives. Yukon Energy is mandated to provide a back-up system, so these units must be replaced.

Based on substantial research, Yukon Energy has concluded a switch from diesel to natural gas generation is the responsible thing to do for economic, operational and environmental reasons. Making the switch to natural gas will save Yukoners up to $2.7 million a year in fuel costs in 2015, and up to $4.2 million each year by 2017.

In 2013 Yukon Energy submitted a Project Proposal to the Yukon Environmental and Socio-economic Assessment Board (YESAB) that will see up to three Whitehorse back-up diesel units being replaced by natural gas units. YESAB is expected to make its recommendations in 2014. Also next year, this proposal is expected to be

reviewed by the Yukon Utilities Board. If we receive all the necessary permits and approvals, we hope to see the natural gas units operate by late 2014 or early 2015.

Micro-Generation Policy

Over the last couple of years, Yukon Energy has been providing input into two Yukon government policies that will promote renewable energy generation.
The government brought forward a micro-generation policy in late 2013 that, when implemented, will allow customers to generate their own clean electricity and reduce the amount of power they buy from a utility.
We are working closely with the Yukon government and Yukon Electrical Company Limited to implement this policy early in 2014.

Secondary Sales

With the growing demand for electricity, Yukon Energy no longer has a great deal of surplus power that can be sold at a secondary sales rate. In 2013 we were able to offer 4 gigawatt hours of secondary sales, providing us with approximately $275,000 in revenues that we would otherwise not have had. Yukon Energy will continue to pursue opportunities to market off peak secondary sales in future.

The secondary sales program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive and generate greenhouse gas emissions. They pay two-thirds of the cost of heating with diesel fuel, in exchange for the service being limited and fully interruptible. They are required to maintain a back-up heating system for use when secondary sales are not available.

Letter of Intent

Yukon Energy signed a Letter of Intent in 2013 with Copper North Mining Corp., the company that hopes to operate the Carmacks Copper mine in the Central Yukon.

The letter essentially says we will work with Copper North to negotiate a Power Purchase Agreement (PPA). Among other things, the PPA would outline the terms and conditions by which Yukon Energy would supply power to the mine site. It would specify the electricity requirements at the mine and would detail the amount and terms by which Copper North would pay Yukon Energy for electricity services.

Fire!

The summer of 2013 saw several forest fires burning very near some of our rural facilities. Of particular note was the need for us to de-energize our transmission line between Carmacks and Faro in the Central Yukon for about two weeks in July. Customers in Faro and Ross River received power from back-up diesel generators during that time. We were only able to re-energize the line once we replaced some damaged poles and had hundreds of unstable trees removed that were adjacent to our right-of-way.

A second fire near our Aishihik hydro facilities prompted us to build a firebreak near our hydro plant and have our sprinkler system at the ready. We also established fire suppression systems around a nearby Champagne and Aishihik First Nations heritage resource site to protect it from the potential effects of fire. Luckily, the fire did not move so close that we needed to use the system.

Switching for savings: our proposal to switch from diesel to natural gas engines will save millions of dollars in fuel, and tons of greenhouse gases.

Retail rate increase:
aging infrastructure requiring on-going maintenance was one of the reasons for our first retail rate increase in over a decade.

Refurbishing the spillgates at Whitehorse dam
Photo: Yukon Energy

Meeting Our Regulatory Obligations

Results of Yukon Energy's 2012 General Rate Application

In 2012, Yukon Energy filed an application with the Yukon Utilities Board (YUB) for our first retail rate increase since 1999. We asked the YUB for permission to raise rates by just over 13 percent over two years (2012 and 2013). The board delivered its decision in June 2013, giving us an 11.01 percent increase over those two years, effective July 1st.

In granting us most of what we requested, this tells us that our regulator approves of the direction in which we are going and the projects we are undertaking. The YUB also recognizes that resource planning and research are crucial elements of our businesses.

Preventative maintenance work at Mayo B.
Photo: Jim Petelski

Health and Safety

Safety Record

Yukon Energy's excellent safety record continued in 2013. Our safety culture was recognized in 2013 by the Canadian Electricity Association (CEA).

In November Yukon Energy received the CEA Vice President's Silver Award for top safety performance among utilities with fewer than 500 employees. It's the second year in a row that we have received a safety performance award from the CEA. This recognition of our transmission and distribution employees' high standards of safe work practices is one we are all very proud of.

As part of our Certification of Recognition (COR), which we obtained in 2009, Yukon Energy was required to undergo and successfully pass an internal maintenance audit. This was completed in the fall of 2013. The COR is issued to employers who develop and implement health and safety programs that meet established standards set out by the Northern Safety Network and the Yukon Workers' Compensation Health and Safety Board.

We will continue to require contractors bidding on construction work to provide proof of their COR or SECOR (Small Employer Certificate of Recognition) as a tendering or pre-bid requirement. Contractors in Yukon's communities are also obtaining their COR or SECOR and are ensuring a continued safe work relationship with Yukon Energy.

There were no serious injuries or lost time injuries suffered by our contractors on Yukon Energy construction projects in 2013.

Public Safety Campaigns

Yukon Energy's Whitehorse Rapids hydro dam is located within city limits and in the heart of a popular recreational area, used by runners, hikers, kayakers and dog walkers. Because of this, public safety is a priority for us.

As in previous years, we ran an annual media campaign in 2013 that warned people of the dangers of being near a hydro dam. In addition, we continued to distribute a safety booklet aimed at elementary school children. The booklet focuses on the importance of taking care when playing or recreating near or on water that is close to our hydro facilities.

Safety education is always an important element of the elementary and high school tours we conduct regularly at our Whitehorse hydro facility. We discuss the dangers of playing around dams, substations and other electrical installations. Our tours take a carefully planned route that ensures the safety of all involved, and the students are required to wear hard hats and hearing protection during their visit.

Powerline Technician Rodeo

There was no bull riding or chuckwagon racing, and tree roping took the place of calf roping, but the skill level was high at the Yukon's first ever powerline technician rodeo, held in the spring of 2013 in Whitehorse. Powerline technicians from four different organizations, including Yukon Energy, came together for a couple of hours of friendly competition and camaraderie.

Safety was the theme of this rodeo, and participants were asked to quickly but safely complete a circuit of six different activities. Perhaps the most popular event (among the spectators at least) was to have the technicians climb a power pole with a raw egg in their mouths. While some of the eggs were returned unscathed, others suffered a rather messy fate, much to the chagrin of the competitors!

Protecting Our Environment

Yukon Energy is proud of our commitment to environmental stewardship and biodiversity. We are a member of the Canadian Electricity Association (CEA), and as such we actively participate in the CEA's flagship Sustainable Electricity Program. Yukon Energy also participates in several other CEA task groups and working groups related to the environment, including those focused on:

> Climate Change Adaptation

> Migratory Birds

> Species at Risk

> Environmental Stewardship

> Water Resources

Yukon Energy recognizes that in providing services and products to Yukoners, there will always be environmental impacts. Our goal is to balance the need for safe, reliable and affordable energy with that of meeting Yukoners' energy requirements without significant adverse effects to the environment or the people and animals that depend on that environment.

Stewardship and Biodiversity

In cooperation with our partners the Yukon Fish and Game Association and the Yukon government, we maintain one of the world's longest fishladders. It not only provides passage for migrating Chinook salmon beyond the Whitehorse dam, but also offers opportunities for scientific and cultural information gathering and sharing. In 2013, 1,139 salmon passed through the ladder, compared to 1,035 in 2012.

As part of the Mayo B project, a salmon rearing channel was constructed on the Mayo River. The channel is working very well and it has been populated by rearing juvenile Chinook salmon and other resident fish species. In 2013, as a community service, Yukon Energy built a 2.5-kilometre-long interpretive trail adjacent to the channel. Several interpretive panels, prepared in cooperation with the NND Heritage Department, are installed along the walking route. The public is welcome during the snow-free period of the year to follow the traffic signs off the Wareham Dam Access Road to the location of the trailhead.

Yukon Energy, in partnership with the Yukon government, operates an important fish hatchery on the Yukon River in Whitehorse. For the fourth year in a row, the hatchery was able to support a Ta'an Kwäch'än First Nation initiative to re-introduce Chinook salmon to Fox Creek by providing approximately 35,000 juvenile salmon for the program. Yukon Energy understands that Chinook salmon were observed spawning in the creek in 2013.

Yukon Energy worked with the First Nation of Na-Cho Nyak Dun (NND) in 2013 to complete a project to enhance spawning habitat in the lower Mayo River. Several spawning gravel additions were made to specific locations in the Mayo River between the Mayo A and B plants.

Climate Change

Matching funds from Yukon Energy Corporation and the federal government allowed the Northern Climate ExChange (NCE) of the Yukon Research Centre to continue its research in 2013 of investigating the implications of climate change on hydro generation at the Whitehorse dam.

Yukon Energy and the Natural Sciences and Engineering Research Council of Canada each contributed $385,000 to allow the Northern Climate ExChange to build upon preliminary research already conducted with the energy corporation.

Researchers are installing automated weather and snowpack monitoring stations at five locations in the upper Yukon River watershed. The researchers will study the characteristics and flow dynamics of the headwater glaciers. They'll also collect data on snowpack and suggest how the water that feeds the Whitehorse dam could be affected by climate variability.

This research is critical to Yukon Energy in terms of helping us plan for climate change and the implications on our ability to generate hydro power. With the majority of the electricity we produce coming from the Whitehorse hydro facilities, we must be ready for any future changes in the watershed that feeds our Whitehorse system.

Yukon Energy's participation in the Canadian Electricity Association's Climate Change Adaptation working group, mentioned above, also provides an excellent opportunity to learn from the efforts of other utilities on how they are identifying and addressing climate change issues that face the electricity industry, and to make the best use of the resources devoted to such research.

Sustainability Award

In 2013, our Manager of Environment, Assessment and Licensing, Travis Ritchie, was given a prestigious Clean50 Award. These awards are handed out annually by the long-time recruitment firm Delta Management Group to recognize those 50 individuals or small teams who have done the most to advance the cause of sustainability in Canada. Travis was chosen from a pool of nearly 500 well-qualified candidates from across the country.

Through his job at Yukon Energy, Travis works to ensure that sustainability is considered in everything that we do. He also is key when it comes to engaging Yukoners in our resource planning initiatives.

Glacial research to learn the implications of climate change on hydro generation at the Whitehorse dam
Photo: Yukon Research Centre

Climbing ladders:
Whitehorse Rapids Fishway provides passage for migrating salmon as well as scientific and cultural opportunities.

Fish release at the Whitehorse Rapids Fishway
Photo: archbould.com

Engaging Yukoners

As part of our priority to engage Yukoners, it is corporate practice to involve First Nation and other local governments, stakeholders and the Yukon public at the concept stage of a project. This allows us to work together to identify issues, research priorities and opportunities for project collaboration.

Follow-up Workshops

During the energy charrette that we hosted in 2011, stakeholders and the public asked us to do more research into the viability of a number of potential energy options. Along with gathering technical data, we held a series of follow-up workshops that allowed Yukoners to continue the conversation started during the charrette.

In 2013 we hosted a workshop on wind energy. Stakeholders and members of the public had an opportunity to hear presentations from experts, ask questions, and share opinions.

Southern Lakes Water Level Committee

As was mentioned earlier in this report, Yukon Energy is considering changes to our water use licence for the Southern Lakes and Whitehorse Rapids Generating Station. For the past several years, Yukon Energy representatives have engaged on a regular basis with area residents and property owners. In 2013, we agreed to fund a group of Southern Lakes residents who have formed the Southern Lakes Water Level Committee. The aim of the group is to help the public and stakeholders better understand the potential project, its possible impacts, and the mitigation measures that could be taken to address any significant impacts.

Connecting Yukoners with Business Opportunities

In the fall of 2013, Yukon Energy hosted a visit to Whitehorse by Sustainable Development Technology Canada (SDTC), a not-for-profit foundation that offers funding for emerging companies that are in the businesses of sustainable development infrastructure.

Those Yukoners who attended the information session had an opportunity to learn more about the kinds of projects SDTC funds, how to apply for assistance, and how to get their application noticed. It also gave them an opportunity to meet potential industry partners and talk to representatives of companies that have been through the funding process.

Project Specific Public Information

To help keep the public up to date on specific projects and concepts that Yukon Energy is undertaking, the Corporation regularly provides information on our website, blog, Facebook page, Twitter feed, and (in video form) on our YouTube channel. We also have an online column called "Ask Janet" that gives members of the public an easy way to put a question to our Communications Manager and receive an answer within 24 hours.

Why we do it: workshops, information sessions, committees, blogs, mailers, columns — to ensure that your needs power what we do.

Conversations in Conversation held at a park in downtown Whitehorse
Photo: Yukon Energy

Householder flyers are a regular part of how we communicate with Yukoners. In 2013 we mailed the following flyers:

- Yukon-wide household mailer that featured Yukoners taking action to reduce electricity usage, and that offered coupons for savings on LED lights and clotheslines;
- Flyers were sent to all residents in Haines Junction, Aishihik and Champagne to provide them with information about a biomass project Yukon Energy and several other partners were working on, and to give them details about an upcoming public meeting on the subject;
- Household mailer to all residents of the Mendenhall subdivision near Whitehorse, outlining the LED streetlight pilot project we were planning for their community. We followed this a few months later with a second flyer and survey asking those same people to let us know what they think of the new LED lights and if they would support having them installed in their community permanently;
- On three separate occasions, flyers were mailed to all addresses in Marsh Lake, Carcross and Tagish notifying them of upcoming meetings of the Southern Lakes Water Level Committee;
- Mailers were sent to all our customers in Faro, Mayo, Stewart Crossing, Dawson, Mendenhall, Braeburn, Champagne and Johnson's Crossing, explaining how they can be notified about upcoming planned power outages.

What partnering looks like: developing opportunities, joint research, providing technical and administrative assistance, feasibility studies, investing.

Participant at a recent Yukon First Nations Energy Forum in Whitehorse. Photo: archbould.com

Building Partnerships with First Nations

Yukon Energy is commited to building enduring business partnerships with local First Nations for energy projects. We devote considerable time to engaging Yukon First Nations on potential energy projects and opportunities within their traditional territories.

In particular, we partnered with the Champagne and Aishihik First Nations (other partners were the Dakwakada Development Corporation, Cold Climate Innovation Yukon Research Centre, and the Village of Haines Junction) to explore the viability of a small biomass plant for the Haines Junction area. While the results of a feasibility study have since shown that this is not an economically viable project for Yukon Energy, we are committed to providing technical and administrative assistance should the Champagne and Aishihik First Nations wish to pursue this on a smaller scale.

We are also working with the Kwanlin Dün First Nation (KDFN) and Ta'an Kwäch'än Council (TKC) to assess the feasibility of using LNG as a fuel source in Yukon. The project, if it proceeds, will likely be established on the traditional territories of these two First Nations.

In 2013, the Kaska Tribal Council invited Yukon Energy to participate in their geothermal exploration program. We have agreed to provide technical expertise and support, share our geothermal research gathered to date, and act as an advocate/champion for this energy source. We have also provided a small ($30,000) investment.

Supporting Our Communities

Sponsorships

While Yukon Energy's primary job is to ensure a secure and sustainable energy future, we also feel a responsibility to help Yukon communities be as strong and healthy as possible. That's why, each year, we give some of our profits to local organizations. In 2013 we donated $75,000 to approximately 40 community groups. The list covered everything from sports and recreation, the arts, education, and health and social services.

Scholarships

Again this year Yukon Energy offered several scholarships for pre-apprenticeship as well as post-secondary programs. In total, scholarships were given to five deserving post-secondary students in 2013.

School/Public Tours

Yukon Energy believes in the importance of educating tomorrow's generation about electrical production, energy conservation and electrical safety. To this end, in 2013 we offered numerous school tours of our Whitehorse hydro plant, wind energy production site, and fishladder. We also provided public tours of our Whitehorse hydro facilities in connection with this year's World Water Day.

Yukon Sustainable Community Award

Several years ago, Yukon Energy entered into a partnership with the Association of Yukon Communities to recognize leadership in sustainable community development. Each year we present an award to an individual or group for a project that demonstrates environmental sustainability. In 2013 the award went to the Town of Faro, for replacing their aging furnaces with newer, energy efficient ones.

Swan Cam/Fish Cam

One of the first signs of spring in the Yukon is the return of the swans and other waterfowl, as they head to their nesting grounds further north. The birds gather by the hundreds at M'Clintock Bay on Marsh Lake in the southern Yukon. The bay is the first open water in the region and offers the birds easy access to food.

Each spring Yukon Energy sets up a webcam so that people can view the waterfowl in real time via their computers. The public response has been very favourable, with people from all over the world going online to see the swans.

Later in the season the webcam is moved to our Whitehorse Rapids Fishladder so that people can view the migrating Chinook salmon as well as the various species of freshwater fish that travel up and down the ladder.

Power to the people:
we believe in educating the next generation, recognizing leadership in sustainability and supporting strong and healthy Yukon communities.

Young Women in Trades conference
Photo: Yukon Energy

Board of Directors and Corporate Governance

The Board of Directors at Yukon Energy oversees the conduct of business, establishes the strategic direction, and supervises Management, which is in turn responsible for the day-to-day operations at Yukon Energy. The Board models its approach to corporate governance on best practices in Canada and abroad, as reflected in the advice and recommendations of bodies such as the Conference Board of Canada, the Directors' College and the Institute of Corporate Directors.

Board of Directors' Appointments

Section 3(1) of the *Yukon Development Corporation Act* Regulations (OIC 1993/108) sets out the process for being appointed to the Yukon Energy board. The Board of the Yukon Development Corporation (YDC) is appointed by the Yukon government and in turn the YDC board appoints the board of Yukon Energy.

As of December 31, 2013, our Board of Directors include:

Chair Piers McDonald
Justin Ferbey
Glenn Hart
Pat Irvin
Georgina Leslie
Diane Lister
Clint McCuaig
Wendy Shanks
Erin Stehelin

Remuneration

Remuneration for Yukon Energy board members has been benchmarked against two Conference Board of Canada reports entitled "Compensation of Boards of Directors 2003" and "Compensation of Board of Directors 2005." Yukon Energy's board remuneration has also been benchmarked against the Conference Board's report "Board Practices in Crown Corporations 2008."

The Board Chair is paid $400 per half-day meeting (four hours or less) and $800 for a full-day meeting (more than four hours). In addition, he is paid for a full day ($800) to prepare for each board meeting.

Board members receive $200 per half-day meeting, and $400 per full-day meeting, plus they receive a full day's remuneration ($400) for meeting prep time.

There are three committees that fall under Yukon Energy's board: the Audit, Governance, and the Human Resources committees. Committee Chairs are paid $300 per half-day meeting and $600 per full-day meeting, with one day ($600) of prep time per committee meeting.

Committee Members receive $200 per half-day meeting and $400 per full-day meeting. They do not receive remuneration for prep time.

Code of Conduct

Yukon Energy has a Code of Conduct to which all Board members are expected to adhere. A copy of the policy can be found on our web site at **http://yukonenergy.ca/about/profile/board/**.

ATIPP Legislation

Yukon Energy is subject to the Yukon government's *Access to Information and Protection of Privacy Act.* The legislation is intended to protect the privacy of individuals who provide information to government. It also offers the public a formal method for requesting information if they are denied access to it by an organization and as such is a method used once other informal avenues have been exhausted.

Openness and transparency are important to Yukon Energy and as a result, we already provide a great deal of information on our website. More information about the Corporation can be found on the Yukon Utilities Board, Yukon Environmental and Socio-economic Assessment Board and the Yukon Water Board websites.

Maintaining Standards: the Conference Board of Canada, the Director's College and ATIPP all provide models and guidance for best practices at Yukon Energy.

Work being done on one of our Whitehorse hydro units
Photo: Yukon Energy

2013 was a good year: improved reliability, adequate supplies of sustainable energy and movement on backup requirements. We're confident about 2014.

Whitehorse Hydro Plant
Photo: Jim Petelski

Senior Management

David Morrison,
President and C.E.O.

Michael Brandt,
Vice-President

Hector Campbell,
Director, Resource Planning
and Regulatory Affairs

Linda Greer, Director,
Human Resources and Information
Management

Lawrence Joudry,
Director, Engineering Services
and Operations

Ed Mollard,
Chief Financial Officer

Shelley Dixon,
Corporate Secretary

Management Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains forward-looking statements, including statements regarding the business and anticipated financial performance of Yukon Energy Corporation. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

Core Business and Strategy

Our business is to generate, transmit and distribute electrical energy throughout Yukon. We strive for this energy to be cost-effective, sustainable, clean and reliable. Our primary source of power comes from our legacy hydro assets, and our goal is to minimize the use of non-renewable sources due to higher variable cost and environmental impacts.

Non-controllable factors greatly influence our business. These non-controllable factors shape our key strategies to minimize the potential negative impact. The level of water inflows, customer load, market prices for commodities, weather, interest rates and foreign exchange rates all have an impact.

At current demand levels, normal levels of water inflows results in being able to predominately source power from hydro. In 2013, over 99.5 percent of our generation was sourced from hydro-based plants. However, we are at risk of both demand increasing and water inflows decreasing.

Demand increase can come from population growth as well as economic expansion such as large commercial or industrial customers. Population in Yukon has posted growth for ten straight years, and is expected to continue in 2014. Weakness in mineral prices and a general slowdown in the global mining industry contributed to less activity in a variety of areas of Yukon's mining sector with exploration, production and development activities all negatively impacted in 2013. However, GDP is forecast to grow by 3.3 percent in 2014 fueled by higher production at current producing mines and expenditures related to mine development. Water inflows decrease during a drought, and droughts typically occur over a period of years which compound the impacts.

As an isolated grid, any event that constrains hydro generation (e.g. high demand, low water) in the short term is addressed with thermal generation. To mitigate the longer term risk of expensive thermal generation, the Corporation has allocated capital spending to projects to expand clean energy capacity in the future by, for example, increased storage of water in existing reservoirs and/or

demand side management programs. The Corporation regularly models the projected supply-demand balance of the system over the short-term to plan optimum system operations and over the medium-term to cost-effectively meet demand.

Key Performance Drivers

Yukon Energy Corporation is a regulated publicly owned utility that operates at arm's length from the Yukon government. We work to provide a secure supply of energy that is sustainable (both economically and environmentally). As such, there are several performance drivers and key performance indicators that are critical to successful implementation of our strategy and achievement of our goals.

In the process of regulating and setting rates for Yukon Energy Corporation, the Yukon Utilities Board (YUB) must ensure that the rates are sufficient to allow the Corporation to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve a reasonable annual rate of return on equity (ROE). The YUB has regulated the Corporation's return on equity at 8.25 percent. As such, we annually set our business plan so that our goal is to achieve an ROE of 8.25 percent. The use of regulatory accounts is common amongst regulated utility industries throughout North America. The Corporation uses various regulatory accounts, in compliance with YUB orders, in order to better match costs and benefits for different generations of customers, smooth out the rate impact of large non-recurring costs, and defer to future periods differences between forecast and actual costs or revenues. Regulatory accounts allow the Corporation to defer certain types of revenue and cost variances through transfers to and from accounts which would otherwise be included in net income. The deferred amounts are then included in customer rates in future periods, subject to approval by the YUB.

A stable workforce is crucial for delivering services required to achieve our business objectives. We regularly monitor our vacancy rate to ensure staffing is at appropriate levels. We set our human resource policies to recruit and retain a competent work force, provide opportunities for professional development and perform succession planning.

Reliability of service is one of our most important objectives. Improving reliability requires a long-term investment strategy and commitment. Trends in recent performance measures are compared against past results. Senior management reviews performance measures and takes action when actual performance deviates from forecast.

Capability To Deliver Results

In order to be able to deliver on our strategy and achieve planned results, Yukon Energy Corporation requires tangible and intangible assets, working capital and other aspects of liquidity, capital resources, leadership, general labour force, and systems and processes. We continually monitor and assess the condition of our assets, and allocate a portion of our capital budget for maintenance of these assets. We develop human resources policies to adapt to our seasoned work force. We monitor and forecast our cash and financial strength. Additionally, we make it a priority to engage Yukoners including First Nation and other local governments, stakeholders and the Yukon public.

Results And Outlook

Net income for the 2013 fiscal year was $7.3 million, $1.9 million above the prior year net income of $5.4 million. The increase from the prior year was primarily due to higher sales of power while other revenues and expenses were relatively consistent. We have increased our 2014 target net income to $9.0 million resulting mainly from a reduction in operating expenses, including labour, non-labour and diesel fuel costs.

Revenue from the sales of power was $38.8 million, $2.0 million higher than the prior year primarily due to increased wholesale sales resulting from increased rates. This was partially offset by a reduction in industrial sales

as a result of a loss of a customer. We expect a slight decrease in revenue in 2014 due to lower industrial sales.

Hydro generation increased from 99.2 percent of total generation in the prior year to 99.5 percent of total generation in the current year. A corresponding decrease in diesel generation of 0.2 percent resulted in a reduction in fuel expense of $0.5 million. This reduced the annual funding of the diesel contingency fund by $0.2 million to $3.5 million due to lower overall generation. In 2014, we have increased our goal of hydro generation to 99.8 percent of total generation due to high reservoir levels.

The rate of return on equity in 2013 was 7.39 percent, up from 6.75 percent in the prior year, but below the target of 8.25 percent. The negative variance from the target resulted mainly from variances in industrial sales and rate riders. The business plan ROE for 2014 has been set at 8.25 percent.

A dividend of $7.0 million was declared to maintain a total debt to total capitalization of 60 percent. We anticipate an additional dividend of $3.2 million in 2014.

Capital expenditures for the year were $29.4 million, down from $40.0 million in the prior year. The investment consisted of maintenance capital, projects for future growth and additional capacity, and feasibility studies. Significant spending in 2013 included major hydro and diesel overhauls, WAF transmission upgrades, Whitehorse spillway upgrades, Whistle Bend subdivision supply, Takhini substation upgrades, liquefied natural gas generation assets, Mayo Lake storage, demand side management and the Marsh Lake design and adequacy review. Our 2014 capital budget has increased to $39.3 million including $21.0 million on the conversion of a backup source of energy from diesel to liquefied natural gas.

Risk Management

Yukon Energy Corporation is exposed to numerous risks. Consequences of risks include safety, environmental, financial, reliability and reputational impacts, long-term and short-term load/resource balance, exposure to commodity and financial market prices, stakeholder relationships and access to adequate funding. These risks can range in scale from minor to catastrophic. The Corporation strives to manage all the risks it faces on a cost effective basis, taking into account the potential reward to be gained in return for the acceptance of the risk. The Chief Financial Officer is charged with the development of the enterprise risk management framework across the entire Corporation, which will provide for the basis of consistent application of risk management practices.

The generation, transmission and distribution of electricity inherently results in certain safety risks to both the employees of the Corporation and the public. To manage employee, contractor and public safety, the Corporation has developed and implemented health and safety programs that meet established standards as well as running public safety campaigns. As well, the Corporation has achieved and maintained certification in the territorial Certificate of Recognition program, issued by Northern Safety Network Yukon.

Significant risks to the reliability of the Corporation's system include aging infrastructure, severe weather and natural disasters. The Corporation manages these risks through long-term planning, asset maintenance and replacement programs and emergency response programs.

Dams and spillways represent extreme consequence but low probability risks in terms of life, safety, financial, environmental and reputation loss. These risks are managed through a comprehensive dam safety management system involving dam safety professionals and experts. Dams are continually monitored.

Yukon Energy Corporation is exposed to the risk of non-compliance with environmental regulations when there are impacts to fish and wildlife and their habitats and risks related to releases to the environment. These risks are managed through the Corporation's environmental management systems, regulatory agreements, work procedures and a variety of site specific environmental risk management strategies. Depending on the project, approvals may be required from the YUB, YESAB and other authorities.

Sustainable energy target: 100 gigawatt hours by 2014 year-end

Whitehorse Hydro Dam
Photo: PR Services

In addition to the environment regulation, the Corporation has risk exposure under several other regulatory regimes: of greatest significance, the recovery of costs and return is subject to the decisions of the Yukon Utilities Board as defined in the *Public Utilities Act*; second, utility operations are specifically regulated by a number of Acts pertaining to resource management (e.g. water management, emissions controls, etc). Management mitigates the risk from these areas by having accountable staff monitoring compliance at all times and taking corrective action as necessary.

First Nation traditional territories encompass the entire Yukon territory. The Corporation devotes considerable time to ensure we understand and can proactively response to First Nation communities' priorities. Failure to do so could result in project delays, increased costs and operational issues. The Corporation works on partnering with local First Nations for energy projects.

Yukon Energy Corporation faces many risks in meeting its financial performance targets, including uncertain economic conditions, variable costs and revenues driven by energy costs, energy demand, interest and foreign exchange rates as well as pension obligations. Many financial risks associated with non-controllable costs and large, non-recurring costs are mitigated through regulatory accounts. The diesel contingency fund was established to lessen the risk relating to low water inflows.

Through established policies and procedures the Corporation maintains a capital structure ratio of 60 percent debt and 40 percent equity. External borrowings require the approval of the Yukon government.

Financial Statements

December 31, 2013

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

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

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

David Morrison,
President and CEO

Ed Mollard
Chief Financial Officer

May 14, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Yukon Energy Corporation, which comprise the balance sheet as at 31 December 2013, and the statement of operations, comprehensive income and retained earnings and 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 Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Yukon Energy Corporation as at 31 December 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the Yukon Energy Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations and the articles and by-laws of the Yukon Energy Corporation.

Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

14 May 2014
Edmonton, Canada

Yukon Energy Corporation
Balance Sheet
(in thousands of dollars)

As at December 31,	2013	2012
Assets		
Current		
Cash (note 4)	$ 8,315	$ 10,562
Accounts receivable (Note 5)	8,415	12,721
Materials and supplies	3,222	2,791
Derivative related asset (Note 24)	430	-
Prepaid expenses	672	553
	21,054	26,627
Deferred uninsured losses (Note 6)	**330**	152
Property, plant and equipment (Note 7)	**405,798**	389,030
Deferred charges and intangible assets (Note 8)	**24,749**	27,157
	$ 451,931	$ 442,966
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 9)	$ 12,303	$ 17,423
Construction financing (Note 10)	20,385	18,905
Derivative related liability (Note 24)	-	155
Current portion of long-term debt (Note 15)	5,406	5,356
	38,094	41,839
Long-term construction financing (Note 10)	**12,000**	-
Long-term pension liability (Note 20)	**1,160**	1,047
Contributions in aid of construction (Note 11)	**170,206**	173,734
Future removal and site restoration costs (Note 12)	**7,224**	7,233
Regulatory hearing reserve (Note 13)	**106**	-
Diesel contingency fund (Note 14)	**8,198**	4,628
Long-term debt (Note 15)	**125,906**	125,841
	362,894	354,322
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	**39,000**	39,000
Contributed surplus	**14,600**	14,600
Retained earnings	**35,437**	35,044
	89,037	88,644
	$ 451,931	$ 442,966

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

_____, Chair _____, Director

Yukon Energy Corporation

Statement of Operations, Comprehensive Income and Retained Earnings
(in thousands of dollars)

For the year ended December 31,	2013	2012
Revenue		
Sales of power (Note 16)	$ 38,842	$ 36,777
Funding from parent (Note 19)	1,249	-
Other	401	483
	40,492	37,260
Operating expenses		
Operations and maintenance (Note 17)	9,983	9,646
Administration (Note 18)	10,196	9,823
Amortization of property, plant and equipment	6,435	6,109
Amortization of deferred charges	2,677	2,706
Amortization of intangible assets (Note 8)	1,813	648
	31,104	28,932
Income from operations	**9,388**	8,328
Other income		
Allowance for funds used during construction	927	802
Amortization of capital assistance	1,408	1,464
Interest income	-	37
	2,335	2,303
Other expenses		
Interest on borrowings	4,738	4,818
Unrealized loss (gain) on interest rate swap (Note 24)	(585)	155
Provision for uninsured losses (Note 6)	226	226
	4,379	5,199
Net income	**7,344**	5,432
Other comprehensive income	**-**	**-**
Comprehensive income	**7,344**	5,432
Retained earnings, beginning of year	**35,044**	29,612
Dividend (Note 15)	**(6,951)**	-
Retained earnings, end of year	**$ 35,437**	$ 35,044

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

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

For the year ended December 31,	2013	2012
Operating activities		
Cash receipts from customers	$ 46,239	$ 37,420
Cash paid to employees and suppliers	(23,111)	(19,477)
Interest paid	(5,127)	(5,152)
Interest received	-	37
Cash provided by operating activities	**18,001**	12,828
Financing activities		
Receipt of construction financing	24,000	10,000
Repayment of construction financing	(12,000)	(5,000)
Issuance of long-term debt	-	11,000
Repayment of long-term debt	(5,356)	(5,004)
Contributions in aid of construction	2,469	24,138
Cash provided by financing activities	**9,113**	35,134
Investing activities		
Additions to property, plant and equipment	(27,847)	(34,127)
Additions to deferred charges and intangible assets	(1,514)	(5,870)
Cash used in investment activities	**(29,361)**	(39,997)
Net increase (decrease) in cash	**(2,247)**	7,965
Cash, beginning of year	**10,562**	2,597
Cash end of year	**$ 8,315**	$ 10,562

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

1. NATURE OF OPERATIONS

Yukon Energy Corporation ("the Utility") is incorporated under the Yukon *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation (YDC or "the Parent"), a corporation owned by the Yukon Government (YG or "the Government"). Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate regulation

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

The regulatory hearing process used to establish or change rates typically begins when the Utility files a General Rate Application (GRA) for its proposed electricity rate changes over the next one or two forecast years (Note 3). The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principles of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

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

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

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

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

Water regulation

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

1. NATURE OF OPERATIONS - continued

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 at year end (Note 25). Annual dividends are declared to the Parent and typically loaned back in order to maintain this ratio during normal on-going operations. When large assets are purchased or constructed, the parent may be required to make an equity contribution.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of rate regulated bodies. The regulatory accounting policies adopted by the Utility differ from the accounting policies prescribed by using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. The impact on the financial statements of accounting for rate regulated operations are further described in Note 3. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Allowance for funds used during construction

The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The calculation of the estimate is based on the Utility's weighted average cost of debt. The AFUDC rate estimate was 4.00% for 2013 (2012 - 4.24%).

Property, plant and equipment

The gain or loss on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, is deferred and amortized over the remaining expected useful lives of the assets.

Deferred uninsured losses

The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. The provision includes a regulatory component as well as a component relating to the future decomissioning of the Minto Mine spur line.

As Per YUB Order 2005-12 no additional provision is permitted to the regulatory component. The provision for the decommissioning of the Minto Mine spur line accrues interest at the rate equal to the three month Canadian Dealer Offered Rate (CDOR).

This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Regulatory hearing reserve
The Utility established a new deferral account for regulatory hearing costs which was approved by the YUB as part of the 2012-2013 GRA. The annual provision is collected through customer rates. Variances between the 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.

Deferred charges
Deferred charges are recorded at cost and include an AFUDC component as allowed by the YUB.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the YUB.

Costs of feasibility studies and infrastructure planning which did not result in a capital project are amortized over terms ranging between five and ten years.

IFRS planning costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. The period of amortization range from 10 to 45 years.

The periods of amortization range from 10 to 45 years.

Deferred insurance proceeds
Deferred insurance proceeds represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The proceeds are being amortized to income on the same basis as the replacement assets.

Diesel Contingency Fund
The Diesel Contingency Fund (DCF) was established by YUB Order 1996-6 through the Negotiated settlement process. The DCF is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The DCF attracts interest based upon short-term bond rates. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. The Utility is required to file an annual report with the YUB on the DCF's activity. The DCF policy is under review by the YUB. See Note 3 for further explanation.

Generally Accepted Accounting Principles
Materials and supplies
Diesel fuel, materials and supplies are recorded at the lesser of average cost and net realizable value. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined. Major spare parts are recorded in the Utility's books as property, plant and equipment.

Property, plant and equipment
Property, plant and equipment is stated at cost and includes an AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, applicable actual directly attributable administration overhead, and, if applicable, direct finance charges capitalized during construction, less accumulated amortization.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 103 years
Diesel 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

The estimated service lives and removal costs of the assets is based upon depreciation studies conducted periodically by the Utility.

Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's Parent, the 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. Amortization of contributions from customers and the Government of Canada is netted on the statement of operations against amortization expense while amortization of capital assistance from the Parent or the Yukon Government is disclosed separately under Other income.

Deferred licensing costs

Costs related to obtaining license renewals for hydro and diesel generation facilities are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under separate licenses, with terms ranging from 17 to 25 years. Diesel generation air emission permits have a term of three years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the license.

Environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Utility reviews its estimates of future environmental liabilities on an ongoing basis as described in Note 23.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognized on the Utility's balance sheet when the Utility becomes party to the contractual provisions of the instrument.

Cash
Cash is comprised of cash on hand and in bank accounts.

Accounts receivable
Accounts receivable, classified as loans and receivable, 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.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities, classified as other financial liabilities, are measured at amortized cost using the effective interest rate method.

Construction financing and Long term debt
Construction financing and long term debt, classified as other financial liabilities, are initially recognized at fair value. Subsequent to initial recognition, construction financing and long term debt is measured at amortized cost using the effective interest rate method.

Transaction costs
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 direct financing costs.

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

Fair value estimation
The carrying value of the cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their fair value due to the immediate or short term maturity of these financial instruments. 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. The fair value of derivative financial instruments is estimated using standard market valuation techniques and is provided to the Utility by the financial institution that is the counterparty to the transactions.

Employee pension plan

The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest-paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan.

Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee pension plan - continued

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. Pension costs include the adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight-line basis over the expected average remaining service period of active employees, which is currently 8 years for the employee plan (2012 - 8 years) and 3 years for the executive plan (2012 - 4 years). The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

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.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in Note 3.

ACCOUNTING CHANGES

Future Accounting Changes

In February 2013, the Canadian Accounting Standards Board extended its existing deferral of the mandatory changeover to International Financial Reporting Standards ("IFRS") for entities with rate regulated activities to January 1, 2015. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The International Accounting Standards Board (IASB) issued an interim standard for regulatory deferral accounts during the first quarter of 2014. The interim standard allows first time adopters to use the interim rate regulated standard until such time as the IASB completes its comprehensive project on rate regulation. The Utility will be required to prepare its financial statements in accordance with IFRS for its fiscal year ending December 31, 2015. The IFRS statements will have comparative financial information and an opening statement of financial position beginning as of January 1, 2014. The effect of the rate regulation must be presented separately from other items under this interim standard.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

General Rate Application

In April 2012, the Utility filed a GRA for the years 2012 and 2013 requesting rate increases of 6.4% and 6.5% respectively. After two rounds of interrogatories, an oral public hearing was held in November of 2012.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

General Rate Application - continued

On June 24, 2013, the YUB approved on-going rate riders of 11.01% for non-industrial customers and 7.36% for industrial customers to reflect the cumulative rate increases for 2012 and 2013. In addition, a one year rider of 3.62% was approved to collect the remaining approved net revenue shortfall for 2012 and 2013. These financial statements reflect the approved rate increase for 2012 and 2013 and all other directives issued by the YUB which affected the Utility's financial statements for 2012 and 2013, including the directive issued regarding the DCF and the Energy Reconciliation Adjustment (ERA) (see below).

Diesel Contingency Fund and Energy Reconciliation Adjustment

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and ERA provisions of the Wholesale Primary rate schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes. In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. In accordance with the YUB's directive as part of the 2012/13 GRA, the Utility has deferred the recognition of the additional amounts collected from rate payers under the proposed DCF policy (Note 14) and the additional revenues under the proposed ERA (Notes 5 & 9) pending the final resolution of these two matters. The amounts for the DCF and ERA are subject to measurement uncertainty and could change significantly based on the decisions of the YUB.

Regulatory Accounts

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred regulatory accounts are recognized in income in the period that the YUB renders a subsequent decision.

Regulatory assets represent future costs associated with certain revenues, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities 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 the Utility's net income would have increased by $4,240,000 in 2013 (2012 - increased by $585,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2013	2012	Expected remaining recovery/ settlement (years)	For 2013: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 8), net book value				
Feasibility studies and infrastructure planning	$ 16,481	$ 17,313	5 to 10	$ 832
Deferred customer service costs	443	507	12	64
Hearing costs	2,722	2,950	10 to 45	228
Dam safety review	48	72	5	24
IFRS planning	340	468	Indeterminate	128
Deferred uninsured losses (Note 6)	330	152	Indeterminate	(178)
Deferred overhauls	3,600	973	Indeterminate	(229)
	23,964	22,435		869

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory liabilities:				
Deferred insurance proceeds (Note 11)	6,015	6,276	25	(261)
Future removal and site restoration costs (Note 12)	4,671	4,711	Indeterminate	(40)
Hearing reserve (Note 13)	106	-	Indeterminate	106
Diesel contingency fund (Note 14)	8,198	4,628	Indeterminate	3,570
	18,990	15,615		$ 3,375
Net impact of assets and liabilities	$ 4,974	$ 6,820		$ 4,244
Impact of other items through Income statement				
Fuel Price Adjustment				(4)
Total effect				$ 4,240

Regulatory assets

(a) Deferred charges

Deferred charges represent incurred costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies and infrastructure planning

The Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2013 would have been $832,000 lower (2012 - $2,429,000 higher expenses).

Deferred customer service costs

These are costs associated with negotiating terms of service with a new industrial customer in 2008. In the absence of rate regulation, expenses in 2013 would have been $64,000 lower (2012 - $64,000 lower expenses).

Hearing costs

These costs are associated with the YUB regulatory proceedings. The costs consist primarily of various rate and project review proceedings. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2013 would have been $228,000 lower (2012 - $574,000 higher expenses).

Dam safety review

The Utility has a program of conducting reviews of the safety 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 Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB Order 2009-8. In the absence of rate regulation, expenses in 2013 would have been $24,000 lower (2012 - $23,000 lower expenses).

IFRS planning

These costs are associated with the accounting conversion from Canadian GAAP to IFRS. In the absence of rate regulation, expenses in 2013 would have been $128,000 lower (2012 - $98,000 lower expenses).

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(b) Deferred 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. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of $397,000 in the Faro mine dewatering deferral revenue account as at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of $180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2013 would have been higher by $178,000 (2012 - $26,000 lower expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(c) Deferred overhauls
Overhauls represent costs incurred to overhaul engines that are in operations. The Utility was directed by YUB Order 2013-01 to defer all overhaul costs incurred after 2011 in work in progress until the Utility comes before the Board for a prudence review and the costs are approved to be capitalized. GAAP would require that major overhauls that extend the life of the asset be capitalized and amortized over the remaining useful life of the asset while all other overhauls are expensed in the year incurred. Total deferred overhaul costs were $3,600,000 (2012 - $973,000). In the absence of rate regulation, amortization expense in 2013 would have been $229,000 higher (2012 – $0 higher).

Regulatory liabilities

(d) Deferred insurance proceeds
The deferred insurance proceeds relates 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 the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, in the absence of rate regulation, the Utility's net income in 2013 would have been lower by the amount of the amortization of $261,000 (2012 - $270,000 lower).

(e) Future removal and site restoration costs
Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2013 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $40,000 (2012 expenses - $0 higher).

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(f) Regulatory hearing reserve
Pursuant to YUB Order 2013-01 the Utility has established a new deferral account for future regulatory hearing costs. Included in the GRA is $550,000 related to estimated hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. In a non-regulated industry, hearing costs would be expensed in the year incurred. In the absence of rate regulation, the Utility's 2013 expense would have been $106,000 lower (2012 - $0).

(g) Diesel contingency fund
Under GAAP any amounts earned or incurred related to the DCF would be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income for 2013 would have been higher by $3,570,000 (2012 - $3,726,000 higher).

(h) Fuel price adjustment
OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2013, fuel expenses were recovered and consequently higher by $4,000 (2012 - fuel expense higher by $80,000).

Other items affected by rate regulation
It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB in assessing the amount the Corporation is entitled to as a return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the YUB which could result in material adjustments to these assets and liabilities.

4. CASH

The cash balance includes an amount of $1,292,000 (2012 - $1,709,508) that is restricted for the payment of a contractor holdback.

5. ACCOUNTS RECEIVABLE

	2013	2012
Wholesale energy sales	$ 5,401	$ 6,399
Retail energy sales	1,869	2,014
Other	1,145	2,178
Green Infrastructure Funding (Note 11)	-	2,130
	$ 8,415	$ 12,721

Included in Accounts Receivable is an amount equal to $453,000 (2012 - $1,172,000) representing management's best estimate of the additional ERA revenues receivable based on interpretation of prior YUB direction and discussions with the Utility's wholesale customer. This revenue has been deferred by Order of the YUB. See Note 3 for further explanation.

6. DEFERRED UNINSURED LOSSES

	2013	2012
Opening balance	$ 152	$ 576
Provision	(226)	(226)
Transfer from Faro mine dewatering deferral revenue	-	(397)
Losses incurred		
Asset replacements	404	199
Closing balance	**$ 330**	$ 152

In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of $397,000 in the Faro mine dewatering deferral revenue account as at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of $180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year.

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2013 Net book Value	2012 Net book Value
Generation	$ 288,806	$ 67,343	$ 221,463	$ 223,520
Transmission	148,497	23,505	124,992	125,748
Distribution	29,469	12,216	17,253	18,242
Buildings and other equipment	24,050	10,092	13,958	14,236
Transportation	4,338	1,452	2,886	2,847
Land and land rights	1,109	-	1,109	1,112
Construction-in-progress	24,137	-	24,137	3,325
	$ 520,406	**$ 114,608**	**$ 405,798**	$ 389,030

8. DEFERRED CHARGES AND INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2013 Net book Value	2012 Net book Value
Intangible assets:				
Deferred licensing costs	$ 12,025	$ 7,310	$ 4,715	$ 5,847
Deferred charges:				
Feasibility studies and infrastructure planning	20,311	3,830	16,481	17,313
IFRS planning	566	226	340	468
Hearing costs	4,946	2,224	2,722	2,950
Deferred customer service costs	769	326	443	507
Dam safety review	332	284	48	72
	$ 38,949	**$ 14,200**	**$ 24,749**	$ 27,157

Included in deferred licensing costs accumulated amortization is $1,249,000 of costs of planning and engineering for the Mayo Lake Enhanced Storage Project. This expense is matched by funding revenue from the Parent (Note 19).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Trade payables	$ 10,857	$ 15,055
Employee compensation	358	336
Other	1,088	2,032
	$ 12,303	$ 17,423

Included in Other accounts payable is an amount equal to $453,000 (2012 - $1,172,000) representing management's best estimate of the additional ERA revenues receivable based on interpretation of prior YUB direction and discussions with the Utility's wholesale customer. This revenue has been deferred by Order of the YUB. See Note 3 for further explanation.

10. CONSTRUCTION FINANCING

	2013	2012
Construction financing due December 31, 2014, bearing interest at 1.25% is approved to a maximum of $25 million	$ 20,385	$ 13,905
Construction financing due on demand, bearing interest at 2.75%	-	5,000
Construction financing, due March 31, 2015, bearing interest at 1.69%	12,000	-
	$ 32,385	$ 18,905

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

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Gross	Accumulated Amortization	2013 Net	2012 Net
Contributions from Canada (Note 5)	$ 71,000	$ 2,057	$ 68,943	$ 69,934
Capital assistance from Parent since 1998	73,545	5,477	68,068	69,095
Contributions from customers since 1998	23,417	6,421	16,996	18,039
Contributions from YG since 1998	10,879	1,228	9,651	9,813
Pre-1998 contributions	1,739	1,206	533	577
Deferred insurance proceeds	11,602	5,587	6,015	6,276
	$ 192,182	**$ 21,976**	**$ 170,206**	$ 173,734

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

12. FUTURE REMOVAL AND SITE RESTORATION COSTS

	2013	2012
Regulatory provision	$ 4,671	$ 4,711
Provision for decommissioning of Minto Mine spur line	2,553	2,522
Closing balance	**$ 7,224**	$ 7,233

13. REGULATORY HEARING RESERVE

	2013	2012
Opening balance	$ -	$ -
Regulatory provision	550	550
Costs	(444)	(550)
Closing balance	**$ 106**	$ -

The regulatory provision is included in amortization of deferred charges on the statement of operations, comprehensive income and retained earnings.

14. DIESEL CONTINGENCY FUND

	2013	2012
Opening balance	$ 4,628	$ 902
Transfers (Note 3)	3,518	3,716
Interest	52	10
Closing balance	**$ 8,198**	$ 4,628

15. LONG-TERM DEBT

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

	2013	2012
Yukon Development Corporation		
$81,890,873 term note bearing interest at 4.25% repayable in annual installments of $3,000,000 principal, plus accrued interest with the balance of $69,890,873 due December 31, 2015	$ 72,891	$ 75,891
$17,095,000 term note bearing interest at 3.69% repayable in annual installments of $683,800 principal, plus accrued interest, due December 31, 2036	15,727	16,411
$21,900,000 flexible term note bearing interest at 5.46% repayable in annual installments of $336,923 principal, plus accrued interest with the balance of $8,423,078 due December 31, 2051	21,226	21,563
Unsecured advance bearing interest at 3.97%, due one year after demand	2,053	2,053
Unsecured advance bearing interest at 4.27%, due one year after demand	5,471	-
TD Bank		
$12,400,000 term note bearing interest at 4.02% payable in monthly installments of $94,406 interest and principal, with the balance due September 30, 2016.The note is guaranteed by the Yukon Government. The terms of the note were renewed October 3, 2011	2,946	3,939
The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Principal drawdowns are monthly with the balance due on December 28, 2022	10,687	11,000
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	311	340
	131,312	131,197
Less current portion	5,406	5,356
	$ 125,906	$ 125,841

$21,900,000 Flexible Term Note

The terms of the flexible term note provide for a maximum amount of interest payable within a calendar year, calculated based on the actual grid generation on the electrical grid system connected with the Mayo Hydro Enhancement Project. The amount of interest payable as a result of the interest rate exceeding the maximum interest payable will abate forever. The actual interest rate on this flexible note was 0.60% (2012 - 0.84%)

Unsecured Advance

On December 31, 2013, the Utility declared a dividend to YDC in the amount of $6,951,000 (2012 - $0). Of this amount, $5,471,000 was loaned back to the Utility to maintain a total debt to total capitalization of 60%.

15. LONG-TERM DEBT - continued

TD Bank Loan and Interest Rate Swap

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

Long-term debt repayment

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

2014	5,406
2015	72,355
2016	2,233
2017	1,406
2018	1,416
Thereafter	48,496
	$ 131,312

Fair value

Fair value at December 31, 2013 of $136 million (2012 - $142 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

16. SALES OF POWER

	2013	2012
Wholesale	$ 28,353	$ 26,408
Industrial	4,484	4,716
General service	3,668	3,527
Residential	1,968	1,870
Secondary sales	275	165
Sentinal and street lights	94	91
	$ 38,842	$ 36,777

17. OPERATIONS AND MAINTENANCE EXPENSES

	2013	2012
Wages and benefits	$ 5,302	$ 4,765
Maintenance		
- lines and substations	1,656	1,620
- hydro, diesel and wind	1,306	1,177
- building and vehicle	1,135	1,020
Fuel and purchased power	360	827
Water level measurement	224	237
	$ 9,983	$ 9,646

18. ADMINISTRATION EXPENSES

	2013	2012
Wages and benefits	$ 5,307	$ 4,870
General office	1,343	1,123
Insurance and taxes	1,321	1,193
Information systems	700	646
Regulatory loss	458	664
Environmental	448	536
Training, recruitment and development	286	344
Board of Directors	150	112
Intercompany services	113	178
Material management and contracting	70	157
	$ 10,196	$ 9,823

19. RELATED PARTY TRANSACTIONS

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

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

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

	2013	2012
Revenue		
Sales of service to YDC	$ 117	$ 177
Program cost reimbursement from YG	100	100
Rate subsidy received from YDC	272	268
Funding from YDC (Note 8)	1,249	-
Operating expenses		
Interest expense on borrowings from YDC	$ 4,280	$ 4,621
Other receipts		
Project contribution from YDC	$ -	$ 500
Construction financing from YDC	13,480	10,000
Other payments		
Repayment of principal on borrowings from YDC	$ 4,021	$ 4,021
Repayment of construction financing from YDC	-	5,000

19. RELATED PARTY TRANSACTIONS - continued

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

	2013	2012
YDC		
Accounts receivable	$ 146	$ 342
Accounts payable	130	520
Construction financing	32,385	18,905
Current portion of long-term debt	4,021	4,021
Long-term debt	113,347	111,897
YG		
Accounts receivable	$ 402	$ 502
Accounts payable	2	175

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

In addition, the Utility declared a dividend to YDC in the amount of $6,951,000 (2012 - nil). Of this amount, $1,480,000 was loaned back by YDC to the Utility as construction financing at an interest rate of 1.25% (Note 10) and $5,471,000 was loaned back by YDC to the Utility as long-term debt (Note 15) in order to maintain the Utility's capital structure of 60% debt and 40% equity at year-end (Note 25).

20. PENSION COSTS AND OBLIGATIONS

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2013. The next valuation for funding purposes will be conducted as of January 1, 2014. An actuarial valuation for funding purposes of the executive defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2011. The next valuation for funding purposes will be conducted as of January 1, 2014. The pension costs and obligations are based on the data used in these funding valuations and have been projected to December 31, 2013 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2013. The distribution of assets by major asset class is as follows:

	December 31, 2013	December 31, 2012
Equities	53.1%	47.3%
Fixed income securities	36.1%	41.3%
Real estate	10.8%	11.4%

Information about the Utility's defined benefit plans as at December 31, in aggregate, is as follows:

	2013	2012
Accrued benefit obligation determined by actuarial valuation	$ 17,953	$ 17,490
Fair value of plan assets	13,284	11,174

20. PENSION COSTS AND OBLIGATIONS - continued

		2013		2012
Funded status - plan deficit	$	4,669	$	6,316
Unrecognised amounts:				
- Transitional asset (liability)		(73)		(132)
- Net accumulated actuarial losses		(3,436)		(5,137)
Accrued benefit liability	$	1,160	$	1,047
Pension costs	$	1,175	$	771
Employer contributions	$	1,061	$	863
Employee contributions	$	108	$	119
Benefits paid	$	536	$	183

Significant assumptions for employee defined benefit plan:

Discount rate - accrued benefit obligation	4.75%	4.50%
Discount rate - pension costs	4.50%	5.25%
Expected long-term rate of return on plan assets	6.25%	6.25%
Assumed rate of salary escalation	3.00%	3.00%
Significant assumptions for executive pension plans:		
Discount rate - accrued benefit obligation	4.75%	4.25%
Discount rate - pension costs	4.25%	5.25%
Expected long-term rate of return on plan assets	5.50%	5.50%
Assumed rate of salary escalation	3.50%	3.50%

The accrued benefit liability has been recorded by the Utility and is separately shown on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the employee defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the employee defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2013, these were $353,000 (2012 - $285,000).

Total cash payments for employee future benefits for 2013, consisting of cash contributed by the Utility to its funded defined benefit pension plans and cash contributed directly to the RRSP were $1,414,000 (2012 - $1,148,000).

21. COMMITMENTS

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

21. COMMITMENTS - continued

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

Contractual obligations
The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2013 as the product or service had not been provided. The total commitments at year end are $6,730,000 (2012 - $6,429,000).

22. CONTINGENCIES

Carmacks to Stewart Crossing Transmission Project
The Utility completed the construction of the Carmacks to Stewart Crossing Transmission Line project during 2011. In April 2011, the line construction contractor notified the Utility of a potential claim under the contract alleging increased costs of $3,000,000 due to scheduling delays and change in scope caused by the Utility. The outcome of the potential claim is not determinable at this time and no amount has been recognized in the financial statements.

Aishihik Third Turbine Project.
This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for $4,000,000 plus interest and costs alleging the Utility has not paid for work performed. The Utility has informed the contractor of claims for incomplete contract scope, uncorrected deficiencies and other claims. The outcome of the claim is not determinable at this time and no amount has been recognized in the financial statements.

23. ENVIRONMENTAL LIABILITIES

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

The Utility has conducted environmental site assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2013 no new environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2013, the Utility's financial instruments included cash, accounts receivable, accounts payable and accrued liabilities, construction financing, long term debt and interest rate swaps. The fair value of cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 15.

The Utility has access to a $10 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.25% per annum.

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

The Utility did not engage in any other hedging transactions.

Interest rate risk
Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Utility is 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 TD Bank whose variable rate as been converted to a fixed rate using an interest rate swap.

As at December 31, 2013, the Utility had an interest rate swap agreement in place with a notional principal amount of $10.7 million (2012 - $11 million). The agreement effectively changes the Utility's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%.

The fair value of the interest rate swap agreement on December 31, 2013 was an asset of $430,000 (2012 - liability of $155,000). The increase in the fair value in 2013 of $585,000 (2012 – decrease of $155,000) is recorded on the Statement of Operations as an unrealized gain/loss. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of $744,000 (2012 - $855,000).

Credit risk
Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Utility. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

Liquidity risk
Liquidity risk is the risk that the Utility will not be able to meet its financial obligations as they fall due. The Utility's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Utility's reputation.

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, 2013:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related asset	-	$430	-	$430

The following table illustrates the fair value hierarchy of the Corporation's financial instruments as at December 31, 2012:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	$155	-	$155

25. CAPITAL MANAGEMENT

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

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Short term debt related to assets under construction at the balance sheet 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 12). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

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

25. CAPITAL MANAGEMENT - continued

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

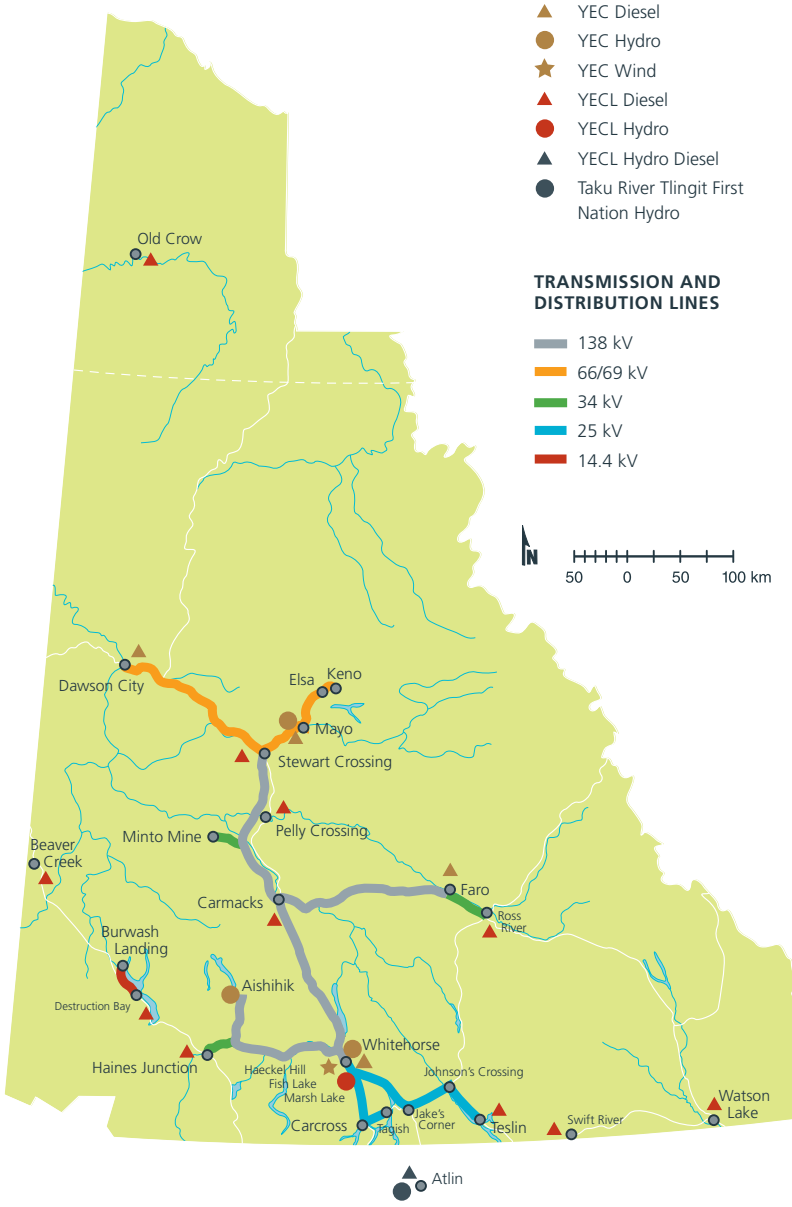
	2013	2012
Long-term debt due within one year	$ 5,406	$ 5,356
Long-term debt	125,906	125,841
Total debt	131,312	131,197
Add provision for decommissioning of Minto Mine spur line	2,553	2,522
Total debt to include in the calculation	$ 133,865	$ 133,719
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	35,437	35,044
Total shareholder's equity	89,037	88,644
Total capitalization	$ 222,902	$ 222,363
Total debt to total capitalization	60 %	60 %

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

26. COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform with the current year's presentation.

Yukon Energy Transmission and Generation Facilities



GENERATING STATIONS

- YEC Diesel
- YEC Hydro
- YEC Wind
- YECL Diesel
- YECL Hydro
- YECL Hydro Diesel
- Taku River Tlingit First Nation Hydro

TRANSMISSION AND DISTRIBUTION LINES

- 138 kV
- 66/69 kV
- 34 kV
- 25 kV
- 14.4 kV

YEC SYSTEM	(in MW)
Hydro Facilities	
Whitehorse (WAF)*	40.0
Aishihik	37.0
Mayo	15.4
Total	**92.4**
Wind Facilities	
Haeckel Hill	0.8
Diesel Facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	10.4
Dawson	4.3
Mayo	2.0
Total	**41.7**
TOTAL YEC SYSTEM	**134.9**

YECL SYSTEM	(in MW)
Hydro Facilities	
Fish Lake	1.3
Diesel Facilities	
Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	**13.7**
TOTAL YECL SYSTEM	**15.0**
Total Yukon Capacity	**149.9**

*WAF Whitehorse–Aishihik–Faro grid

YUKON ENERGY

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Cover: Overhaul on Hydro unit

Photo: Jim Petelski

your needs power what we do