



Yukon Development Corporation 2017 Report

This page has been intentionally left blank

Table of Contents

- Chair’s Message 4
- Message from the President & Chief Executive Officer 5
- Report of the Audit Committee 6
- Organizational Overview 8
 - Board of Directors 8
 - Board of Directors’ Appointments 8
 - YDC Audit Committee..... 9
 - YDC Governance Committee 9
 - Senior Management and Officers..... 9
- Year in Review 10
 - Innovative Renewable Energy Initiative 10
 - Stewart-Keno Transmission Line 10
 - Demand-Side Management: LED Streetlights 10
 - Interim Electrical Rebate..... 10
 - Governance and Subsidiary Accountability..... 11
 - Policy and Corporate Support 11
- FINANCIAL STATEMENTS 12
 - Consolidated Financial Statements TOC..... 13
 - Management’s Responsibility for Financial Reporting..... 14
 - Independent Auditor’s Report 15
 - Consolidated Statement of Financial Position 17
 - Consolidated Statement of Operations and Other Comprehensive Income 18
 - Consolidated Statement of Changes in Equity 19
 - Consolidated Statement of Cash Flows..... 20
 - Notes to Consolidated Financial Statements (21 – 54) 21

Chair's Message

2017 was an exciting year for Yukon Development Corporation, in which we saw the development and launch of the Innovative Renewable Energy Initiative. This initiative has been designed to encourage the development of First Nation, community, and local private-sector renewable energy projects, encompassing both electricity and heat generation for community commercial purposes. There has been significant interest in the program, with six proposals having already been submitted and approved, with indications of another two to three proposals being developed. More than \$400k was distributed in 2017, and more than \$2 million is committed in 2018.

In addition, the Corporation sought funding for its subsidiary's capital projects for the 2017 and 2018 year, supporting energy projects needed to maintain and sustain the energy needs of Yukon residents such as refurbishment of transmission lines and a third LNG engine.

Advances continued to be made in the areas of risk management, subsidiary accountability and the updating of board bylaws. A request for proposals was issued for a financial review of the Yukon Development Corporation and its subsidiary, Yukon Energy Corporation. The review will be completed in 2018. Governance and financial sustainability are important components that contribute to maintaining the Corporation's Government Business Enterprise status.

The Board and I look forward to a productive year in 2018 as we continue working with the government and our subsidiary, Yukon Energy Corporation, towards our mandate of ensuring the production of cost effective and reliable energy to meet Yukon's needs for now and the future.

Joanne Fairlie,

Chair

Message from the President & Chief Executive Officer

Under the direction of the Board, Yukon Development Corporation has prepared this 2017 Annual Report to present a balanced and accurate summary of the Corporation's performance for the calendar and fiscal year that ended December 31, 2017.

As I conclude my second full year with Yukon Development Corporation, I am pleased to report on the progress of the corporation. Our team's actions throughout the year reflected the priorities of the five-year Strategic Plan and were guided by the initiatives within our 2017 Business Plan, and set out in the Premier's Mandate letter, including strengthening our subsidiary governance accountabilities.

With the continued work on the Stewart Keno Transmission line, policy development of the Innovative Renewable Energy Initiative, and investments in rural LED streetlights, the corporation is assisting communities establish their renewable energy futures.

I look forward to work with the board and government to continue to implement government's priorities for the corporation in 2018.

Justin Ferbey,

President and CEO

Report of the Audit Committee

The Audit Committee oversees the Yukon Development Corporation's ("the Corporation") financial reporting process, corporate controls and risk management on behalf of the Board of Directors. The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, for assessing the effectiveness of internal controls over business operations and assets; and assessing and managing the Company's risks. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements with the Corporation's management, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements. The Committee is governed by a Terms of Reference, as approved by the Board. A copy of the terms of reference is available on the Corporation's website.

The terms of reference were last amended effective April 2016.

The membership of the Audit Committee, together with appointment dates and attendance at meetings, is set forth below:

Director		Member Since	Meetings Attended	
Collin Young	Chair, Audit Committee	February 21, 2013	5 of 5	
Joanne Fairlie	Member	February 21, 2013	5 of 5	
Dan Reams	Member	October 2013	5 of 5	
John Wierda	Member	February 21, 2013	1 of 1	Retired Feb 2017

The Committee held five meetings during fiscal year 2017. The Committee is comprised solely of independent directors as defined by [National Instrument 52-110 Audit Committees](#).

The meetings of the Committee are designed to facilitate and encourage communication among the Committee members, and the Corporation's management, including the chief financial officer and the Company's independent auditor.

The Committee reviews and discusses, with the Corporation's management, the quarterly financial results, including the results from the Corporation's subsidiary, Yukon Energy Corporation. The Committee reviews at each committee meeting for significant financial issues arising within the enterprise and provides recommendations to the Board.

A request for proposals to conduct a financial review of the Corporation and its subsidiary, Yukon Energy Corporation, was issued in the latter part of 2017. It is expected that the review will be completed in 2018. The intent of the review is to ensure the continuation of the Corporation and by extension its subsidiary, as a Government Business Enterprise. During the year, the Committee continued the development of a Governance model that will foster improved communication and financial reporting from the subsidiary to the Corporation, and the Minister.

The Committee continued to provide oversight on management's formal enterprise risk assessment of the Corporation, reporting of risks and management of same. The initial enterprise risk assessment is focused on the Corporation's own risk assessment, risk management; as well as monitoring the risk assessments of the Corporation's wholly owned subsidiary, Yukon Energy Corporation.

The Committee reviewed, discussed and recommended to the Board on significant financial agreements and contracts. The Committee reviewed, discussed and recommended to the Board on the Corporation's annual business plan. The Committee also reviewed, discussed and recommended to the Board on the financial requirements for special projects including the Stewart Keno Transmission Line project.

The Committee discussed with the Corporation's chief financial officer and independent auditor the overall scope and plans for the external audit. The Committee meets with the independent auditor, with and without management present, to discuss the results of their examinations; their evaluations of the Corporation's internal control, including internal control over financial reporting; the overall quality of the Corporation's financial reporting; and the Corporation's compliance with various Laws, Acts and Regulations.

The Audit Committee recognizes the importance of maintaining the independence of the Corporation's independent external Auditor, both in fact and appearance. The Corporation's external auditor is the Auditor General of Canada, (the "OAG"), which is appointed by the Yukon Development Corporation Act, an Act of the Yukon Government. The Auditor General of Canada has been the Corporation's external auditor since the Corporation was established under the Yukon Development Corporation Act. The Committee met with the external auditor to review their audit plan, the quality and efficiency of the services provided by the auditors, the auditors' capabilities, the auditors' technical expertise and knowledge of the Corporation's operations and industry; and their independence from the Corporation management and Corporation.

The Committee reviewed with the OAG (who is responsible for expressing an opinion on the conformity of the audited consolidated financial statements with International Financial Reporting Standards); the OAG's judgments as to the quality, not just the acceptability, of the Company's accounting principles; and compliance with applicable Acts and regulations.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board approved, that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2017, for submission to the Minister Responsible for Yukon Development Corporation.

Collin Young

Audit Committee Chair

Organizational Overview

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

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

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

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

Board of Directors

Joanne Fairlie (Chair)

Jacqueline Bazett

JoAnne Harach

Skyler Hougen

Darren Kates

Michael Lauer

William LeBarge

Dan Reams

Collin Young

Board of Directors' Appointments

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

YDC Audit Committee

Collin Young (Chair)

Joanne Fairlie

Dan Reams

YDC Governance Committee

Jackie Bazett (Chair)

Joanne Fairlie

JoAnne Harach

Michael Lauer

Senior Management and Officers

Justin Ferbey, President and Chief Executive Officer

Lisa Jarvis, Corporate Secretary

Blaine Anderson, Chief Financial Officer

Year in Review

Innovative Renewable Energy Initiative

Yukon Development Corporation completed the development of the Innovative Renewable Energy Initiative (IREI) at the end of 2017. The objectives of the program are: to decrease the consumption of fossil fuels in generating electricity and heat; encouraging the development of local job opportunities; and to increase and diversify the supply of electricity and heat in the territory.

The program has an annual budget of \$1.5 million, and is open to First Nations governments and agencies, municipal governments, community-based non-profit organizations, and Yukon-based private-sector companies.

Yukon Development Corporation has been working with potential proponents for the program to ensure it will meet the needs of local organizations and that the application process is not too burdensome.

Stewart-Keno Transmission Line

Yukon Energy Corporation and Victoria Gold Corporation signed a power purchase agreement for the supply of grid-based power to the Eagle Gold Mine site north of Mayo at the end of 2017. Through this agreement, the transmission line infrastructure, some of which is over sixty years old, will be upgraded.

Victoria Gold will be paying the full cost of connecting the mine to the grid, and will contribute to the cost associated with the transmission line upgrade that will benefit all on-grid Yukon communities.

Yukon Development Corporation is working with the Yukon government to secure access to funding for the project.

Demand-Side Management: LED Streetlights

Yukon Development Corporation has been working with ATCO Electric Yukon, Yukon Energy Corporation and Yukon communities to accelerate the deployment of LED streetlights across the territory. This is a part of the strategy to ensure Yukon manages its demand for electricity as well as the supply.

These lights are a good investment for the territory. To give an idea of the difference LED lights make in terms of demand for electricity, replacing the streetlights in Old Crow will save the community approximately 4,600 litres of diesel fuel annually. In addition, ATCO and Yukon Energy are using shielded lights that minimize the amount of light pollution.

Interim Electrical Rebate

2017 was the seventh full year of the Interim Electrical Rebate, providing residential electrical customers with a rebate of up to \$26.62 based on the first 1,000 kilowatt hours they use each month. In 2017, the Yukon government, through YDC, provided \$3,570,000 to the program. These funds were provided to Yukoners through ATCO Electric Yukon and Yukon Energy Corporation.

Governance and Subsidiary Accountability

In addition to the development of an annual Shareholder Letter of Expectations between the Corporation and Yukon Energy, work on the development of subsidiary accountability standards was undertaken. Yukon Development Corporation and Yukon Energy Corporation are currently working together to complete this work.

Policy and Corporate Support

Yukon Development Corporation provides input and a corporate perspective to various government initiatives at the Territorial and Federal level. A key focus for 2017 was Yukon Development Corporation's participation in the updating of the Independent Power Producer policy, being led by the Department of Energy, Mines, and Resources. This legislation will be a key enabler for the Innovative Renewable Energy Initiative by setting the terms and conditions associated with the selling of electricity to the utilities.

FINANCIAL STATEMENTS

Yukon Development Corporation

Consolidated Financial Statements

December 31, 2017

Consolidated Financial Statements TOC

Yukon Development Corporation

Consolidated Financial Statements

December 31, 2017

Page

Management's Responsibility for Financial Reporting	14
Independent Auditor's Report	15-16
Consolidated Statement of Financial Position	17
Consolidated Statement of Operations and Other Comprehensive Income	18
Consolidated Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Notes to Consolidated Financial Statements	21-54

Management's Responsibility for Financial Reporting



Yukon Development Corporation
PO Box 2703 (D-1), Whitehorse, Yukon Y1A 2C6

May 22, 2018

Management's Responsibility for Financial Reporting

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

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

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



Justin Ferbey
President and CEO



Blaine Anderson
Chief Financial Officer

Whitehorse, Yukon

Independent Auditor's Report



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Yukon Development Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Yukon Development Corporation, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of operations and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Yukon Development Corporation as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

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



Lana Dar, CPA, CA
Principal
for the Auditor General of Canada

22 May 2018
Vancouver, Canada

Consolidated Statement of Financial Position

Yukon Development Corporation

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

As at December 31,	2017	2016
Assets		
Current		
Cash	\$ 2,704	\$ 3,239
Accounts receivable (Note 5)	8,520	7,030
Inventories (Note 6)	3,783	3,598
Prepaid expenses	678	754
Current portion of lease receivable (Note 7)	32	-
	15,717	14,621
Non-current		
Finance lease receivable (Note 7)	85	117
Property, plant and equipment (Note 8)	439,811	438,802
Intangible assets (Note 9)	8,476	7,281
Total assets	464,089	460,821
Regulatory deferral account debit balances (Note 10)	33,163	27,880
Total assets and regulatory deferral account debit balances	\$ 497,252	\$ 488,701
Liabilities		
Current		
Bank indebtedness (Note 11)	\$ 7,294	\$ -
Accounts payable and accrued liabilities (Note 12)	9,735	9,166
Construction financing (Note 13)	39,200	-
Derivative related liability (Note 25)	56	429
Current portion of long-term debt (Note 14)	1,395	3,667
	57,680	13,262
Non-current		
Post-employment benefits (Note 15)	6,116	5,867
Contributions in aid of construction (Note 16)	93,495	95,780
Decommissioning fund (Note 17)	2,665	2,636
Construction financing (Note 13)	-	39,200
Long-term debt (Note 14)	133,177	134,535
Total liabilities	293,133	291,280
Equity		
Contributed capital	41,501	41,501
Retained earnings	143,819	136,128
Total equity	185,320	177,629
Total liabilities and equity	478,453	468,909
Regulatory deferral account credit balances (Note 10)	18,799	19,792
Total liabilities, equity and regulatory deferral account credit balances	\$ 497,252	\$ 488,701

Commitments and Contingencies (Notes 22 and 23)

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

Approved by the Board:

 , Chair

 , Director

Consolidated Statement of Operations and Other Comprehensive Income

Yukon Development Corporation

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

For the year ended December 31,	2017	2016
Revenues		
Sales of power (Note 18)	\$ 44,681	\$ 39,738
Yukon Government contributions (Note 21)	6,902	7,380
Other	371	316
	51,954	47,434
Operating expenses		
Operations and maintenance (Note 19)	18,329	19,325
Depreciation and amortization (Notes 8 and 9)	13,133	11,112
Administration (Note 20)	11,646	12,964
	43,108	43,401
Income before other income and other expenses	8,846	4,033
Other income		
Amortization of contributions in aid of construction (Note 16)	2,617	2,604
Allowance for funds used during construction	461	815
Unrealized gain on interest rate swaps (Note 25)	374	231
Interest income	41	69
	3,493	3,719
Other expenses		
Interest on borrowings	7,545	7,520
Interim electrical rebate program subsidies (Note 1)	3,251	3,121
	10,796	10,641
Net income (loss) for the year before net movement in regulatory deferral account balances	1,543	(2,889)
Net movement in regulatory deferral account balances related to net income (Note 10(d))	6,276	7,895
Net income for the year and net movement in regulatory deferral account balances	7,819	5,006
Other comprehensive (loss) income		
Item that will not be reclassified to net income in subsequent periods		
Remeasurement of defined benefit pension plans (Note 15)	(128)	(483)
Total comprehensive income for the year	\$ 7,691	\$ 4,523

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

Consolidated Statement of Changes in Equity

Yukon Development Corporation

Consolidated Statement of Changes in Equity

(in thousands of Canadian dollars)

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	\$ 41,501	\$ 131,605	\$ -	\$ 173,106
Net income for the year and net movement in regulatory deferral account balances	-	5,006	-	5,006
Other comprehensive loss	-	-	(483)	(483)
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	(483)	483	-
Balance at December 31, 2016	\$ 41,501	\$ 136,128	\$ -	\$ 177,629
Net income for the year and net movement in regulatory deferral account balances	-	7,819	-	7,819
Other comprehensive loss	-	-	(128)	(128)
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	(128)	128	-
Balance at December 31, 2017	\$ 41,501	\$ 143,819	\$ -	\$ 185,320

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

Consolidated Statement of Cash Flows

Yukon Development Corporation

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

For the year ended December 31,	2017	2016
Operating activities		
Cash receipts from customers	\$ 43,391	\$ 40,510
Cash receipts from Yukon Government	6,491	7,019
Cash receipts from contributions in aid of construction	334	332
Cash paid to suppliers	(22,779)	(20,406)
Cash paid to employees	(12,126)	(12,349)
Interest paid	(6,920)	(7,493)
Interest received	41	105
Cash provided by operating activities	8,432	7,718
Financing activities		
Repayment of long-term debt	(3,667)	(5,249)
Cash used in financing activities	(3,667)	(5,249)
Investing activities		
Additions to property, plant and equipment	(10,346)	(11,546)
Additions to intangible assets	(2,248)	(1,318)
Cash used in investing activities	(12,594)	(12,864)
Net decrease in cash	(7,829)	(10,395)
Cash, beginning of year	3,239	13,634
Cash, end of year	\$ (4,590)	\$ 3,239
Cash includes:		
Cash	\$ 2,704	\$ 3,239
Bank indebtedness (note 11)	(7,294)	-
Total	\$ (4,590)	\$ 3,239

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

Notes to Consolidated Financial Statements

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

1. Nature of operations

a) General

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

Yukon Development Corporation's wholly-owned subsidiary, Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act*. The Utility generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Water Board. Both boards are consolidated by the Yukon Government and are related parties for accounting purposes to the Yukon Development Corporation and the Utility. Management has assessed that these boards operate independently from the Yukon Development Corporation and the Utility from a rate setting and operating perspective. The Utility's principal place of business is located at #2 Miles Canyon Road, Whitehorse, Yukon, Y1A 6S7.

Yukon Development Corporation and the Utility are not subject to income taxes.

Yukon Development Corporation consolidates the financial statements of its subsidiary, the Utility. All intercompany transactions, balances, income and expenses are eliminated on consolidation. References in these consolidated financial statements to "Corporation" refer to the consolidated entity.

b) Rate regulation

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

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

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

1. Nature of operations - continued

The YUB assesses the prudence of costs added to rate base, which includes an allowance for funds used during construction (AFUDC) charged to capital projects. The YUB also reviews the appropriateness of property, plant and equipment depreciation rates, which are periodically updated by the Corporation through depreciation studies. In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial.

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

In June 2017, the Corporation filed a GRA for the years 2017 and 2018 requesting a number of board orders.

The GRA requested rate increases of 9.04% and 2.07% for the years 2017 and 2018 respectively. A refundable interim rider (5.50%) was approved effective September 1, 2017. The interim rate will be replaced by final rates, if approved by the YUB.

The GRA also included requested board orders related to the regulatory deferral accounts, specifically an increase of the annual appropriation for uninsured losses and change to the rate of amortization; elimination of the requirement to defer vegetation management costs in excess of the 2011 actual brushing costs and amortization of previously deferred costs; change to the long-term average for fuel costs to better reflect current market conditions; and decrease of the annual appropriation for the hearing reserve and change to the rate of amortization.

These consolidated financial statements reflect the requested rate increase for 2017 and all other YUB board orders requested in the GRA which affect the Corporation's consolidated financial statements for 2017. All of these requested board orders are subject to approval by the YUB as part of the regulatory proceeding to approve the GRA. Refer to Note 4 Regulatory deferral account balances.

c) Water regulation

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

d) Capital structure

The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity (Note 26).

e) Yukon Government

In March 2017, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for 12 months at current levels, to March 31, 2018. The rebate provides subsidies to non-government residential and municipal customers. It was implemented in 1998 after the Faro mine closed to protect customers from significant bill increases that would have resulted from that shutdown. The Yukon Government is providing funding for the rebate to a maximum of \$3.5 million per fiscal year.

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

1. Nature of operations - continued

The Corporation was directed to conduct Hydro-Electric Power planning studies.

The Corporation signed two agreements with the Yukon Government for total funding of up to \$5.3 million to conduct feasibility studies related to upgrading the transmission facilities between Stewart Crossing and Keno City.

2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were authorized for issue by the Board of Directors on May 22, 2018.

b) Basis of measurement

The financial information included in the consolidated financial statements has been prepared on a historical cost basis, except for some financial instruments, as described in note 3(f), which are measured at fair value.

3. Significant accounting policies

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

a) Revenue recognition

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

b) Translation of foreign currencies

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

c) Allowance for funds used during construction

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

d) Cash

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

e) Inventories

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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

f) Financial instruments

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

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

Bank indebtedness, accounts payable and accrued liabilities, construction financing and long-term debt are classified as other financial liabilities and they are initially recognized at fair value. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

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

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

g) Leasing

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

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

h) Property, plant and equipment

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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

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

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

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

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

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period of the expected useful life (until the next major overhaul) which varies from 5 to 10 years. Repairs and maintenance costs of property plant and equipment are expensed as incurred unless they meet the criteria of a betterment.

i) Intangible assets

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

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

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

j) Impairment of non-financial and financial assets

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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

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

k) Rate regulated accounting policies Regulatory deferral accounts

Regulatory deferral accounts in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation. The Corporation defers certain costs or revenues as regulatory deferral account debit balances or regulatory deferral account credit balances on the Consolidated Statement of Financial Position and recognizes them in the net movement in regulatory deferral account balances in the Consolidated Statement of Operations and Other Comprehensive Income. The amounts recognized as regulatory deferral account balances are expected to be recovered or refunded in future rates, based on approvals by the YUB. The recovery or settlement of regulatory deferral account balances through future rates is impacted by demand risk and regulatory risks (e.g. potential future decisions of the YUB which could result in material adjustments to these regulatory deferral account debit balances and regulatory deferral account credit balances as described in Note 1(b)).

i) Regulatory deferral account debit balances

Regulatory deferral account debit balances represent costs which are expected to be recovered from customers in future periods through the rate-setting process. In the absence of rate regulation and the Corporation's adoption of IFRS 14, such costs would be expensed as incurred.

ii) Regulatory deferral account credit balances

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

l) Provision for asset retirement obligations

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

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

m) Provision for environmental liabilities

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

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

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

n) Contributions in aid of construction

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

o) Decommissioning fund

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

p) Post-employment benefits and other comprehensive income

The Corporation sponsors an employee defined benefit pension plan for employees joining the Corporation before January 1, 2002. The Corporation also sponsors an executive defined benefit pension plan and supplemental executive retirement plan for a former executive. Benefits provided are calculated based on length of pensionable service, pensionable salary at retirement age and negotiated rates. The Corporation contributes amounts to the pension plans as recommended by an independent actuary.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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

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

q) Changes in accounting policies and disclosures

An amendment to IAS 7 *Statement of Cash Flows* requires the Corporation to provide disclosures to separately identify cash and non-cash changes in liabilities arising from financing activities. This additional disclosure has been reflected in Notes 13 and 14.

r) New standards and interpretations not yet adopted

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

i) IFRS 15, *Revenue from Contracts with Customers*, is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation will adopt IFRS 15 on January 1, 2018 and will apply the cumulative effect method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption January 1, 2018.

While the Corporation is completing its assessment of the adoption of IFRS 15, it expects no significant impacts to the Corporation's consolidated financial statements. The adoption of this standard will also impact the Corporation's revenue disclosures as the Corporation will be required to disclose the judgements, and changes in judgements made in applying IFRS 15 and a reconciliation of certain balances.

ii) IFRS 9, *Financial Instruments*, will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* with a single model that has only two classification categories: amortized cost and fair value. The new standard provides additional guidance on the classification and measurement of financial instruments, introduces a new "expected credit loss model" for the impairment of financial assets and provides new guidance on the application of hedge accounting.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

The standard becomes effective for annual periods beginning on or after January 1, 2018, which is the date the Corporation will adopt IFRS 9 retrospectively without restatement of comparative amounts. While the Corporation is completing its assessment of the adoption of IFRS 9 it expects no significant impacts to the Corporation's consolidated financial statements.

iii) IFRS 16, *Leases*, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Corporation continues to assess the impact of adopting this standard on its consolidated financial statements.

4. Significant accounting judgements, estimates and assumptions

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

Impairment of long-lived assets - Notes 3h) and 8

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

Asset retirement obligations - Notes 3i) and 23

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

Depreciation and amortization - Notes 3h), 3i), 8 and 9

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

4. Significant accounting judgements, estimates and assumptions - continued

Intangible assets - Notes 3i) and 9

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

Regulatory deferral account debit and credit balances - Notes 3k)(i,ii) and 10

The Corporation accounts for its regulatory deferral accounts in accordance with IFRS 14 *Regulatory Deferral Accounts* and the decisions of the YUB. As discussed in Note 1(b) the recovery of these balances will be determined by the YUB as part of the regulatory proceeding to approve the GRA. Management is required to make judgements as to the timing of recognition and probability that the YUB will approve the Corporation to collect deferred costs through future rates.

Post-employment benefits - Notes 3p) and 15

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

Revenue - Note 18

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

Provisions and contingencies - Notes 3l), 3m), 22 and 23

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

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

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

Financial instruments - Notes 3f) and 25

The Corporation enters into financial instrument arrangements which may require management to make judgements to determine if such arrangements are derivative instruments in their entirety or contain embedded derivatives, including whether those embedded derivatives meet the criteria to be separated from their host contract, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

4. Significant accounting judgements, estimates and assumptions - continued

Key judgements are whether certain non-financial items are readily convertible to cash, whether similar contracts are routinely settled net in cash or delivery of the underlying commodity taken and then resold within a short period, whether the value of a contract changes in response to a change in an underlying rate, price, index or other variable, and for embedded derivatives, whether the economic risks and characteristics are not closely related to the host contract and a separate instrument with the same terms would meet the definition of a derivative on a standalone basis.

5. Accounts receivable

	2017	2016
Wholesale energy sales	\$ 4,227	\$ 3,734
Retail energy sales	2,366	1,441
Due from related parties (Note 21)	1,358	1,159
Other	569	696
	\$ 8,520	\$ 7,030

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

	Current	31 - 90 Days	Over 90 Days	Total
Accounts receivable	\$ 7,297	\$ 1,169	\$ 64	\$ 8,530
Allowance for doubtful accounts	-	-	(10)	(10)
	\$ 7,297	\$ 1,169	\$ 54	\$ 8,520

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

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

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

6. Inventories

	2017	2016
Materials and supplies	\$ 3,343	\$ 3,088
Diesel fuel	337	299
Liquefied natural gas	103	211
	\$ 3,783	\$ 3,598

7. Direct financing lease

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

	2017	2016
Direct financing leases	\$ 117	\$ 117
Less: current portion	32	-
	\$ 85	\$ 117

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

8. Property, plant and equipment

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

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
Cost:						
At December 31, 2015	\$ 274,847	\$ 155,348	\$ 15,357	\$ 3,481	\$ 7,507	\$ 456,540
Additions	680	-	138	784	10,667	12,269
Transfers	3,100	2,834	882	-	(6,816)	-
Disposals	-	-	(635)	(311)	-	(946)
At December 31, 2016	278,627	158,182	15,742	3,954	11,358	\$ 467,863
Additions	-	-	-	553	12,590	13,143
Transfers	16,274	2,604	1,295	-	(20,173)	-
Disposals	-	-	(189)	(238)	-	(427)
At December 31, 2017	\$ 294,901	\$ 160,786	\$ 16,848	\$ 4,269	\$ 3,775	\$ 480,579

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

8. Property, plant and equipment - continued

	Generation	Transmission & Distribution	Land & Buildings	Transportation & Other	Construction Work-in Progress	Total
Accumulated depreciation:						
At December 31, 2015	\$ 9,022	\$ 7,944	\$ 1,561	\$ 521	\$ -	\$ 19,048
Depreciation	5,525	4,260	823	285	-	10,893
Disposals	-	-	(635)	(245)	-	(880)
At December 31, 2016	14,547	12,204	1,749	561	-	\$ 29,061
Depreciation	6,260	4,288	1,229	306	-	12,083
Disposals	-	-	(189)	(187)	-	(376)
At December 31, 2017	\$ 20,807	\$ 16,492	\$ 2,789	\$ 680	\$ -	\$ 40,768
Net book value:						
At December 31, 2016	\$ 264,080	\$ 145,978	\$ 13,993	\$ 3,393	\$ 11,358	\$ 438,802
At December 31, 2017	\$ 274,094	\$ 144,294	\$ 14,059	\$ 3,589	\$ 3,775	\$ 439,811

Included in generation depreciation is the annual depreciation for overhauls of \$0 (2016 - \$802,000) which is recorded in regulatory account expenses in Note 19. The AFUDC capitalized for 2017 was \$466,000 (2016 - \$819,000). The AFUDC rate estimate was 2.36% for 2017 (2016 - 2.4%)

9. Intangible assets

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

	Software	Deferred Customer Service Costs	Financial Software	Aishihik Water License	Thermal and Water Licensing	Subtotal see next page
Cost:						
At December 31, 2015	\$ 462	\$ 443	\$ 2,406	\$ 3,032	\$ 2,516	\$ 8,859
Additions	66	-	-	955	297	1,318
Disposals	(8)	-	-	-	-	(8)
At December 31, 2016	520	443	2,406	3,987	2,813	10,169
Additions	170	-	-	1,969	109	2,248
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 690	\$ 443	\$ 2,406	\$ 5,944	\$ 2,825	\$ 12,308
Accumulated amortization:						
At December 31, 2015	\$ 61	\$ 128	\$ 568	\$ 1,038	\$ 72	\$ 1,867
Amortization	92	64	283	524	58	1,021
At December 31, 2016	153	192	851	1,562	130	2,888
Amortization	124	64	283	518	64	1,053
Disposals	-	-	-	(12)	(97)	(109)
At December 31, 2017	\$ 277	\$ 256	\$ 1,134	\$ 2,068	\$ 97	\$ 3,832

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

9. Intangible assets - continued

Net book value:

At December 31, 2016	\$ 367	\$ 251	\$ 1,555	\$ 2,425	\$ 2,683	\$ 7,281
At December 31, 2017	\$ 413	\$ 187	\$ 1,272	\$ 3,876	\$ 2,728	\$ 8,476

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

10. Regulatory accounts

Regulatory deferral account debit balances

	Feasibility Studies (i)	IFRS Planning (ii)	Regulatory Costs (iii)	Vegetation Management (iv)	Dam Safety (v)	Uninsured Losses (vi)	Subtotal see next page
Cost:							
At December 31, 2015	\$ 18,555	\$ 566	\$ 4,360	\$ 1,644	\$ 144	\$ 267	\$ 25,536
Costs incurred	4,869	-	695	1,074	4	1,018	7,660
Regulatory provision	-	-	-	(502)	-	(226)	(728)
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
Contributions received	(825)	-	(1)	-	-	-	(826)
At December 31, 2016	20,548	-	4,260	2,216	148	1,059	28,231
Costs incurred	2,265	-	912	-	-	667	3,844
Regulatory provision	-	-	-	-	-	(267)	(267)
Disposals	(243)	-	(643)	-	-	-	(886)
Contributions received	(715)	-	(100)	-	-	-	(815)
At December 31, 2017	\$ 21,855	\$ -	\$ 4,429	\$ 2,216	\$ 148	\$ 1,459	\$ 30,107
Accumulated amortization:							
At December 31, 2015	\$ 4,344	\$ 453	\$ 1,345	\$ -	\$ -	\$ -	\$ 6,142
Amortization	25	113	248	-	-	-	386
Disposals	(2,051)	(566)	(794)	-	-	-	(3,411)
At December 31, 2016	2,318	-	799	-	-	-	3,117
Amortization	1,282	-	440	222	30	212	2,186
Disposals	(243)	-	(643)	-	-	-	(886)
At December 31, 2017	\$ 3,357	\$ -	\$ 596	\$ 222	\$ 30	\$ 212	\$ 4,417
Net book value:							
At December 31, 2016	\$ 18,230	\$ -	\$ 3,461	\$ 2,216	\$ 148	\$ 1,059	\$ 25,114
At December 31, 2017	\$ 18,498	\$ -	\$ 3,833	\$ 1,994	\$ 118	\$ 1,247	\$ 25,690
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement in regulatory deferral account balances related to net income on the Consolidated Statement of Operations and Other Comprehensive Income):							
December 31, 2016	\$ 4,019	\$ (113)	\$ 446	\$ 572	\$ 4	\$ 792	\$ 5,720
December 31, 2017	\$ 268	\$ -	\$ 372	\$ (222)	\$ (30)	\$ 188	\$ 576
Remaining recovery years							
At December 31, 2016	5 to 10 years	0 years	10 to 45 years	Indeterminate	4 years	Indeterminate	-
At December 31, 2017	5 to 10 years	0 years	10 to 45 years	Indeterminate	3 years	Indeterminate	-
Absent rate regulation, net income for the year and net movement in regulatory deferral account balances on the Consolidated Statement of Operations and Other Comprehensive Income would increase (decrease) by:							
December 31, 2016	\$ (4,019)	\$ 113	\$ (446)	\$ (572)	\$ (4)	\$ (792)	\$ (5,720)
December 31, 2017	\$ (268)	\$ -	\$ (372)	\$ 222	\$ 30	\$ (188)	\$ (576)

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

Regulatory deferral account debit balances - continued

	Carry Forward	Deferred Overhauls (vii)	Fuel Price Adjustment (viii)	2017 GRA (ix)	Total
Cost:					
At December 31, 2015	\$ 25,536	\$ 1,843	\$ 4	\$ -	\$ 27,383
Costs incurred	7,660	925	-	-	8,585
Regulatory provision	(728)	-	-	-	(728)
Disposals	(3,411)	-	-	-	(3,411)
Contributions received	(826)	-	(6)	-	(832)
At December 31, 2016	28,231	2,768	(2)	-	\$ 30,997
Cost incurred	3,844	-	-	-	3,844
Regulatory provision	(267)	-	500	4,319	4,552
Disposals	(886)	-	-	-	(886)
Contributions received	(815)	-	-	-	(815)
At December 31, 2017	\$ 30,107	\$ 2,768	\$ 498	\$ 4,319	\$ 37,692
Accumulated amortization:					
At December 31, 2015	\$ 6,142	\$ -	\$ -	\$ -	\$ 6,142
Amortization	386	-	-	-	386
Disposals	(3,411)	-	-	-	(3,411)
At December 31, 2016	3,117	-	-	-	3,117
Amortization	2,186	112	-	-	2,298
Disposals	(886)	-	-	-	(886)
At December 31, 2017	\$ 4,417	\$ 112	\$ -	\$ -	\$ 4,529
Net book value:					
At December 31, 2016	\$ 25,114	\$ 2,768	\$ (2)	\$ -	\$ 27,880
At December 31, 2017	\$ 25,690	\$ 2,656	\$ 498	\$ 4,319	\$ 33,163
Net increase (decrease) in regulatory deferral account debit balances (which are recognized in the net movement in regulatory deferral account balances related to net income on the Consolidated Statement of Operations and Other Comprehensive Income):					
December 31, 2016	\$ 5,720	\$ 925	\$ (6)	\$ -	\$ 6,639
December 31, 2017	\$ 576	\$ (112)	\$ 500	\$ 4,319	\$ 5,283
Remaining recovery years					
At December 31, 2016		Indeterminate	1 year	-	
At December 31, 2017		Indeterminate	1 year	1 year	
Absent rate regulation, net income for the year and net movement in regulatory deferral account balances on the Consolidated Statement of Operations and Other Comprehensive Income would increase (decrease) by:					
December 31, 2016	\$ (5,720)	\$ (925)	\$ 6	\$ -	\$ (6,639)
December 31, 2017	\$ (576)	\$ 112	\$ (500)	\$ (4,319)	\$ (5,283)

(a) Regulatory deferral account debit balances

(i) Feasibility studies and infrastructure planning

The Corporation undertakes certain studies to determine the feasibility of a range of projects and infrastructure proposals. While in progress, the costs of these studies are deferred within this account. The Corporation is directed to defer and amortize the costs over terms (between five and ten years) at the discretion of the YUB. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

(ii) IFRS planning

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

(iii) Regulatory costs

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

(iv) Vegetation management

Prior to 2017, the Corporation was deferring annual brushing costs in excess of a prescribed maximum annual amount based on a review of prior year brushing costs. In 2017, the Corporation established a vegetation management policy and as a result of expected annual costs, deferral is no longer required. The Corporation completes a full cycle of all its brushing requirements every 10 years and is amortizing previously deferred costs over a 10 year period. The impact of this change in estimate resulted in no additional amounts being recorded as additions to this regulatory deferral debit account and \$222,000 being recognized through the net movement in regulatory deferral account balances related to net income during the year. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1(b).

(v) Dam safety review

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

(vi) Uninsured losses

Uninsured losses is an account maintained to address uninsured and uninsurable losses as well as the deductible portion of insured losses. The account is maintained through an annual provision and collected through customer rates. In 2017 the Corporation adjusted the annual provision based on past experience. Furthermore, since the account is in a debit balance, the under accrual of the provision will be amortized over a five year period. The impact of this change in estimate resulted in a \$41,000 increase to the regulatory provision and amortization of the prior year accumulated balance of \$212,000. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1(b).

(vii) Deferred overhauls

YUB Order 2013-01 restricted inclusion of property, plant and equipment overhaul depreciation expense in rates charged to customers until the Corporation comes before the YUB for a prudence review. As such, starting in 2013 the Corporation deferred depreciation expense related to overhauls. In 2017, the Corporation came before the YUB for a prudence review. As such, the Corporation began to recognize these costs during the year. The impact of this change in estimate resulted in \$111,000 of amortization of the accumulated balance. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

(viii) Fuel price adjustment

OIC 1995/90 directs the YUB to permit the Corporation to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the long term average prices is deferred and recovered from or refunded to customers in a future period. In 2017 the Corporation updated the long term average cost to better reflect current market conditions. The impact of this change resulted in an additional \$450,000 regulatory provision for this regulatory deferral debit account. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1(b).

(ix) 2017 GRA for proposed rate increase

The Corporation recognizes a regulatory deferral account debit balance when the Corporation has the right, as a result of the actual or expected actions of the rate regulator, to increase rates in future periods in order to recover its allowable costs. The amount recognized represents the Corporation's 2017 revenue shortfall based on 2017 forecasted costs plus a fair rate of return and represents management's best judgement and estimate of the expected approval by the YUB. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1(b) and Note 4.

(x) Deferred gains and losses

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

Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing Reserve (ii)	Diesel Contingency Fund (iii)	Future Removal and Site Restoration Costs (iv)	Total
Cost:					
At December 31, 2015	\$ 11,122	\$ 561	\$ 10,895	\$ 4,367	\$ 26,945
Costs incurred	-	(138)	-	(8)	(146)
Regulatory provision	-	550	-	-	550
Cash received	-	-	1,054	-	1,054
Cash refunded	-	-	(2,464)	-	(2,464)
At December 31, 2016	11,122	973	9,485	4,359	25,939
Costs incurred	-	(3)	-	(56)	(59)
Regulatory provision	-	250	-	-	250
Cash received	-	-	2,118	-	2,118
Cash refunded	-	-	(2,861)	-	(2,861)
At December 31, 2017	\$ 11,122	\$ 1,220	\$ 8,742	\$ 4,303	\$ 25,387
Accumulated amortization:					
At December 31, 2015	\$ 5,897	\$ -	\$ -	\$ -	\$ 5,897
Amortization	250	-	-	-	250
Disposals	-	-	-	-	-
At December 31, 2016	6,147	-	-	-	6,147
Amortization	247	194	-	-	441
Disposals	-	-	-	-	-
At December 31, 2017	\$ 6,394	\$ 194	\$ -	\$ -	\$ 6,588

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

Regulatory deferral account credit balances

Net book value:					
At December 31, 2016	\$ 4,975	\$ 973	\$ 9,485	\$ 4,359	\$ 19,792
At December 31, 2017	\$ 4,728	\$ 1,026	\$ 8,742	\$ 4,303	\$ 18,799
Net (increase) decrease in regulatory deferral account credit balances (which are recognized in the net movement of regulatory deferral account balances related to net income on the Consolidated Statement of Operations and Other Comprehensive Income):					
December 31, 2016	\$ 250	\$ (412)	\$ 1,410	\$ 8	\$ 1,256
December 31, 2017	\$ 247	\$ (53)	\$ 743	\$ 56	\$ 993
Remaining recovery years					
At December 31, 2016	20 years	Indeterminate	Indeterminate	Indeterminate	
At December 31, 2017	19 years	Indeterminate	Indeterminate	Indeterminate	
Absent rate regulation, net income for the year and net movement in regulatory deferral account balances on the Consolidated Statement of Operations and Other Comprehensive Income would increase (decrease) by:					
December 31, 2016	\$ (250)	\$ 412	\$ (1,410)	\$ (8)	\$ (1,256)
December 31, 2017	\$ (247)	\$ 53	\$ (743)	\$ (56)	\$ (993)

(b) Regulatory deferral account credit balances

(i) Deferred insurance proceeds

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

(ii) Hearing reserve

The Corporation has established a deferral account for future regulatory hearing costs. In 2017 the Corporation adjusted the annual provision and recognition of the accumulated balance to more accurately reflect expected hearing costs. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred. This change is consistent with the YUB board order requested as part of the 2017-2018 GRA. Refer to Note 1(b).

(iii) Diesel Contingency Fund and Energy Reconciliation Adjustment

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

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

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

(iv) Future removal and site restoration costs

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

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

(c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of \$3,844,000 (2016 - \$8,585,000) and regulatory account credit balances of \$59,000 (2016 - \$146,000).

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

Net movement in regulatory deferral account balances related to net income is \$6,276,000 (2016 - \$7,895,000) and represents the adjustment to net income for the year before net movement in regulatory deferral account balances for the effects of rate regulation in accordance with IFRS 14. The net movement figure of \$6,276,000 is comprised of an increase of \$5,283,000 for regulatory account debit balances and a decrease of \$993,000 for regulatory account credit balances for rate regulation compared to the amounts that would be recorded under IFRS absent rate regulation. The net movement figure of \$7,895,000 for 2016 is comprised of an increase of \$6,639,000 and \$1,256,000 for regulatory account debit balances and regulatory account credit balances respectively for rate regulation compared to the amounts that would be recorded under IFRS absent rate regulation.

11. Bank indebtedness

The line of credit accrues interest on withdrawals at prime rate minus 0.75% per annum.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

12. Accounts payable and accrued liabilities

	2017	2016
Trade payables	\$ 7,794	\$ 7,473
Employee compensation	1,328	989
Due to related parties (Note 21)	551	654
Other	62	50
	\$ 9,735	\$ 9,166

13. Construction financing

	2017	2016
Construction financing due March 31, 2018, bearing interest at 1.51% (2016 - 1.44%), interest rate is adjusted annually on April 1 to be the one-year Canadian Dollar Offered Rate plus 30 basis points, approved to a maximum of \$21.2 million	\$ 21,200	\$ 21,200
Construction financing due March 31, 2018, bearing interest at 1.51% (2016 - 1.44%), interest rate is adjusted annually on April 1 to be the one-year Canadian Dollar Offered Rate plus 30 basis points, approved to a maximum of \$18 million	18,000	18,000
	\$ 39,200	\$ 39,200

The Corporation's construction financing is summarized as follows:

	2017	2016
Current portion of construction financing	\$ 39,200	\$ -
Long-term construction financing	-	39,200
	\$ 39,200	\$ 39,200

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

During the year the Corporation did not make any principal repayments. Construction financing due March 31, 2018 was refinanced subsequent to the year end for a term of five years. Annual principal payments of \$1,000,000 are due on March 31. The interest rate is adjusted annually on April 1 to be the one-year Canadian Dollar Offered Rate plus Yukon Government's borrowing premium.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

14. Long-term debt

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

	2017	2016
Bond		
The Corporation issued a bond at a fixed interest rate of 5.0% per annum. Interest is payable semi-annually. Principal payment is due when the bond expires on June 29, 2040 (i).	\$ 98,397	\$ 98,359
The Toronto Dominion Bank		
The Corporation entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.92% per annum. Principal drawdowns are monthly with the balance due on December 27, 2017.	-	2,000
The Toronto Dominion Bank		
The Corporation entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 4.82% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017.	-	280
The Toronto Dominion Bank		
The Corporation entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Payable in monthly installments of \$50,407 interest and principal with the balance due on December 28, 2022 (ii).	9,348	9,697
Tr'ondek Hwech'in First Nation loan		
The loan from the First Nation is related to the construction of the Mayo Dawson Transmission Line and is repayable in equal annual principal repayments of \$125,000 with the final payment due in 2049. The interest rate at 7.406% (2016-7.19%) is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	4,000	4,125
Na-Cho Nyak Dun First Nation loan		
The loan from the First Nation is related to the construction of the Mayo B project and is repayable in equal annual principal repayments of \$43,264 with the final payment due in 2094. The interest rate of 8.69% (2016-8.14%) is based on the actual rate of return earned by the Utility.	3,331	3,375

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

14. Long-term debt - continued

Chu Niikwan Limited Partnership loan

The loan from the First Nation is related to the construction of the Liquid Natural Gas generation equipment and is repayable in equal annual principal repayments of \$839,376 with the final payment due in 2040. The interest rate of 4.736% (2016 - 4.47%) is based on a blended rate based on the cost of debt and the actual rate of return earned by the Utility.

19,306	20,146
--------	--------

Carmacks Stewart First Nation liability

Long-term liability payable to several First Nations related to the construction of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028.

190	220
-----	-----

Total

134,572	138,202
---------	---------

Less: current portion

1,395	3,667
-------	-------

\$ 133,177	\$ 134,535
------------	------------

(i) Bond

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

(ii) Toronto Dominion Bank Loan and Interest Rate Swap

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

Long-term debt repayment

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

2018	\$ 1,395
2019	1,385
2020	1,395
2021	1,395
2022	8,865
Thereafter	120,137

\$ 134,572

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

14. Long-term debt - continued

The change in long-term debt arising from financing activities during the year related to principal repayment of \$3,667. An amount of \$1,395 was reclassified from long-term debt to current portion of long-term debt due to the passage of time.

Fair value

The fair value of long-term debt at December 31, 2017 is \$168 million (December 31, 2016 - \$165 million). The fair value for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

15. Post-employment benefits

Characteristics of benefit plans

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

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

The defined benefit pension plan for employees is regulated by the Office of the Superintendent of Financial Institutions (OSFI) through the *Pension Benefits Standards Act* and regulations. This Act and accompanying regulations impose, among other things, minimum funding requirements. The executive defined benefit pension plan and supplemental executive retirement plan are not registered with OSFI and are not subject to minimum funding requirements of the Act.

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

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

Risks associated with defined benefit plans

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

Net defined benefit liability

	2017	2016
Present value of benefit obligations		
Balance, beginning of year	\$ 22,980	\$ 20,793
Employee contributions	84	84
Current service cost	543	493
Interest cost	910	868
Benefits paid	(559)	(458)
Actuarial (gains) losses on experience	(755)	539
Actuarial losses on financial assumptions	1,572	661
Balance, end of year	\$ 24,775	\$ 22,980
Fair value of plan assets		
Balance, beginning of year	17,113	15,357
Interest income on plan assets	671	638
Gain (losses) on plan assets	688	716
Employee contributions	84	84
Employer contributions	674	781
Benefits paid	(521)	(421)
Administrative costs	(50)	(42)
Balance, end of year	18,659	17,113
Net defined benefit liability	\$ 6,116	\$ 5,867

Components of benefit plan cost

	2017	2016
Current service cost	\$ 543	\$ 493
Interest cost	910	868
Interest income on plan assets	(671)	(638)
Administrative costs	50	42
Defined benefit expense in Consolidated Statement of Operations	832	765
Defined contribution expense	454	448
Total benefit expense in Consolidated Statement of Operations	\$ 1,286	\$ 1,213
Actuarial losses (gains) on obligation	816	1,200
Losses (gains) on plan assets	(688)	(717)
Total remeasurement included in Other Comprehensive Income	128	483
Total benefit cost recognized in the Consolidated Statement of Operations and Other Comprehensive Income	\$ 1,414	\$ 1,696

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

Distribution of plan assets of defined benefit pension plans:

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

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

Significant assumptions:

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

Sensitivity Analysis:

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

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2017

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

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2016

Assumption	+1%	-1%	+1%	-1%
Discount rate	-14.10%	17.97%	\$(3,241)	\$4,129
Salary growth	2.5%	-2.41%	550	(521)
Pension growth	14.25%	-11.74%	3,071	(2,537)
Life expectancy (1 year movement)	2.41%	-2.43%	555	(559)

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

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

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

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

The average duration of the benefit obligation is 16.0 years (2016 - 16.0 years).

The Corporation expects to make payments of \$682,000 (2016 - \$706,000) to the defined benefit pension plans during the next financial year.

16. Contributions in aid of construction

	Government of Canada	Customers since 1998	Yukon Government since 1998	Pre - 1998 contributions	Total
Cost:					
At December 31, 2015	\$ 71,000	\$ 24,581	\$ 18,120	\$ 1,739	\$ 115,440
Additions	-	272	58	-	330
At December 31, 2016	\$ 71,000	\$ 24,853	\$ 18,178	\$ 1,739	\$ 115,770
Additions	-	40	292	-	332
At December 31, 2017	\$ 71,000	\$ 24,893	\$ 18,470	\$ 1,739	\$ 116,102
Accumulated amortization:					
At December 31, 2015	\$ 4,039	\$ 8,761	\$ 3,294	\$ 1,292	\$ 17,386
Additions	990	1,186	384	44	2,604
At December 31, 2016	\$ 5,029	\$ 9,947	\$ 3,678	\$ 1,336	\$ 19,990
Additions	991	1,188	394	44	2,617
At December 31, 2017	\$ 6,020	\$ 11,135	\$ 4,072	\$ 1,380	\$ 22,607
Net book value:					
At December 31, 2016	\$ 65,971	\$ 14,906	\$ 14,500	\$ 403	\$ 95,780
At December 31, 2017	\$ 64,980	\$ 13,758	\$ 14,398	\$ 359	\$ 93,495

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

17. Decommissioning fund

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

18. Sales of power

	2017	2016
Wholesale	\$ 31,516	\$ 28,641
Industrial	5,298	4,506
General service	4,924	4,359
Residential	2,204	1,765
Secondary sales	635	371
Sentinel and street lights	104	96
	\$ 44,681	\$ 39,738

19. Operations and maintenance expenses

	2017	2016
Wages and benefits	\$ 6,242	\$ 5,955
Regulatory account expenses (Note 10 (c))	3,903	8,731
Contractors	3,024	1,692
Fuel	2,911	1,168
Materials and consumables	1,335	1,173
Rent	492	234
Travel	352	311
Communication	70	61
	\$ 18,329	\$ 19,325

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

20. Administration expenses

	2017	2016
Wages and benefits	\$ 6,316	\$ 6,311
Insurance and taxes	1,828	1,824
Materials, consumables and general	1,285	2,408
External labour	1,231	1,451
Licences and fees	711	658
Travel	191	188
Board fees	84	124
	\$ 11,646	\$ 12,964

21. Related party transactions

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

The finance lease with the Yukon Hospital Corporation is disclosed in Note 7.

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

	2017	2016
Revenues		
Contributions for Interim Electrical Rebate program	\$ 3,540	\$ 3,194
Contributions for bond interest expense	2,625	2,625
Contributions for feasibility studies for transmission facilities	565	825
Contributions for Next Generation Hydro project expenses	171	907

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

	2017	2016
Balances		
Construction financing	\$ 39,200	\$ 39,200
Accounts receivable	\$ 1,358	\$ 1,159
Accounts payable	\$ 551	\$ 654

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

21. Related party transactions - continued

Transactions with Key Management Personnel

The Corporation's key management personnel comprise of members of senior management and the board of directors, a total of 27 individuals (2016 - 27 individuals). Key management personnel compensation is as follows:

Year ended December 31,	2017	2016
Short-term employee benefits	\$ 1,631	\$ 1,653
Post-employment benefits	163	55
Retirement benefits	-	36
	\$ 1,794	\$ 1,744

22. Commitments

Aishihik water licence

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

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

Contractual obligations

The Corporation has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2017 as the product or service had not been provided. The total commitments at year end are \$4,813,000 (December 31, 2016 - \$1,754,000).

Power Purchase Agreement

On November 9, 2017, the Utility entered into a Power Purchase Agreement (PPA) with Victoria Gold Corporation and Stratagold Corporation (collectively known as VGC Group). The PPA details the rights and obligations of each party in an agreement to permit VGC Group to connect its industrial mine site in the Mayo district to the Utility's grid. Power sales to the industrial mine are estimated to contribute \$100 million in additional revenues to the Utility over the expected ten year mine life. The agreement commits VGC to covering the full costs of connecting to the Utility's main line, the Utility's negotiating expenses and required system improvements. The Utility is expected to incur \$118,621 in monthly fixed costs related to this agreement. These amounts will be collected through a monthly fixed rate charge from VGC.

The agreement was conditional on approval by the YUB and confirmation of VGC receipt of financing to move on to the next phase of construction. On March 6, 2018, the YUB accepted the PPA as presented and specifically approved those provisions related to required investment and rate schedule impacts. Additionally, on March 8, 2018, VGC Group advised the Utility that they had achieved the condition precedent related to the requirement for mine construction financing.

The mine is expected to connect to the grid by approximately mid 2019.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

23. Contingencies

Aishihik Third Turbine Project

This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for \$4,000,000 plus interest and costs alleging the Utility has not paid for work performed. During 2016, the judge awarded the plaintiff \$1,682,000 of which \$1,308,000 had already been accrued for in the consolidated financial statements. The Utility was also required to reimburse the plaintiff for its legal costs and interest. The Utility recognized an estimate for this amount as a liability in the 2016 Consolidated Statement of Financial Position. Legal cost and interest were paid in 2017. The Utility has appealed the decision. The outcome of the appeal is not determinable at this time and no estimate of appeal settlement has been recognized in the consolidated financial statements.

Asset retirement obligations

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

24. Provision for environmental liabilities

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

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

25. Risk management and financial instruments

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

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as discussed in Note 14.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

25. Risk management and financial instruments - continued

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

The Corporation did not engage in any other hedging transactions.

Interest rate risk

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

As at December 31, 2017, the Corporation had an interest rate swap agreement in place with a notional principal amount of \$9.34 million (December 31, 2016 - \$9.7 million). The agreements effectively change the Corporation's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%.

The fair value of the interest rate swap agreement on December 31, 2017 was a liability of \$56,000 (December 31, 2016 - liability of \$429,000). The increase in the fair value in 2017 of \$374,000 (2016 – increase of \$231,000) is recognized on the Consolidated Statement of Operations and Other Comprehensive Income as an unrealized gain. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of \$401,000 (December 31, 2016 - \$519,000).

The Corporation has access to \$17.5 million in lines of credit. Effective August 25, 2017, the borrowing capacity under the lines of credit was increased temporarily to \$29.5 million. The temporary increase expires August 24, 2018. The account accrues interest on withdrawals at prime rate minus 0.75% per annum. By agreement the financial institution has a legally enforceable right to set off the outstanding balance under the lines of credit by cash balances in other accounts with the same bank. The amount outstanding on the lines of credit balance at year end was \$10.1 million (2016 - \$2.5 million). The Corporation has cash balances with the same financial institution with legal right of offset of \$2.8 million (2016 - \$2.8 million). Due to the short-term nature of the amount drawn on the lines of credit and the Corporation's cash balances with the same financial institution the interest rate risk is minimal.

Credit risk

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

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

	2017	2016
Cash	\$ 2,704	\$ 3,239
Accounts receivable	8,520	7,030
Finance lease receivables	117	117
	\$ 11,341	\$ 10,386

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

25. Risk management and financial instruments - continued

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

Credit risk on accounts receivable is considered minimal as the Corporation has experienced insignificant bad debt in prior years. In addition, its primary customer is a rate regulated utility that purchases power from the Corporation for resale and as such these receivables are considered fully collectible. Included in the accounts receivable past due but not impaired at December 31, 2017 are \$1,223,000 (2016 - \$257,000) which management believes will be received in full.

Liquidity risk

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

The Corporation had \$19.4 million (December 31, 2016 - \$17.5 million) in undrawn credit facilities at its disposal to further reduce liquidity risk. See Note 14 for contractual maturity analysis of long-term debt.

Fair values

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

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$56	-	\$56
Long-term debt	-	-	\$134,572	\$134,572

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

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$429	-	\$429
Long-term debt	-	-	\$138,202	\$138,202

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

26. Capital management

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. For the purpose of this calculation capital is the Utility's equity which is comprised of share capital, contributed capital and accumulated funds in the form of retained earnings.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Short-term debt related to assets under construction at the Statement of Financial Position date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning of the Minto Mine spur line has been added (Note 17). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the Utility's Statement of Financial Position. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

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

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

	2017	2016
Long-term debt due within one year	\$ 5,248	\$ 5,238
Long-term debt	142,523	147,771
Total debt	147,771	153,009
Add provision for decommissioning of industrial customer spur line	2,665	2,636
Total debt to include in the calculation	\$ 150,436	\$ 155,645
Share capital	\$ 39,000	\$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	61,367	51,034
Total shareholder's equity	114,967	104,634
Total capitalization	\$ 265,403	\$ 260,279
Total debt to total capitalization	57 %	60 %

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2017 (tabular amounts in thousands of Canadian dollars)

27. Non-consolidated financial information

The nature and size of operations of the non-consolidated Yukon Development Corporation and its wholly-owned subsidiary, Yukon Energy Corporation differ substantially. Unaudited non-consolidated financial statements of the Yukon Development Corporation and audited financial statements of Yukon Energy Corporation for the year ended December 31, 2017 are also prepared.

