

YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2014

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YUKON DEVELOPMENT
C O R P O R A T I O N

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Yukon Development Corporation are the responsibility of management, and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements.

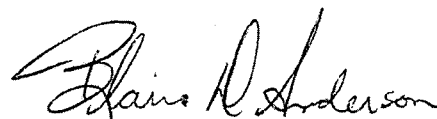
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and the transactions coming to their notice have, in all significant respects, been in accordance with specified authorities. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.



Joanne Fairlie
Chair



Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
May 22, 2015

Mailing address: P.O. Box 2703 (D1), Whitehorse, Yukon Y1A 2C6
Office: Suite 204 – 3106 3rd Avenue, Whitehorse, Yukon Y1A 1E5
Phone: (867) 456-3995 • Fax: (867) 456-2145 • Web: ydc.yk.ca

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of 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 balance sheet as at 31 December 2014, and the consolidated statement of operations, comprehensive income and retained earnings 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 Canadian generally accepted accounting principles, 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.

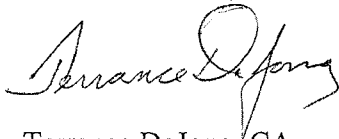
Opinion

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 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Yukon Development Corporation Act*, I report that, in my opinion, Canadian generally accepted accounting principles 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 its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Yukon Development Corporation and its wholly-owned subsidiary 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 and its wholly-owned subsidiary.



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

22 May 2015
Edmonton, Canada

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars) 2014 2013

Assets

Current assets

Cash (note 5)	\$ 3,962	\$ 8,858
Accounts receivable (note 6)	8,029	8,281
Materials and supplies	3,065	3,223
Prepaid expenses	719	672
Derivative related asset (note 28)	-	120

15,775 21,154

Direct financing leases (note 7)	162	162
Property, plant and equipment (note 8)	428,598	399,739
Deferred uninsured losses (note 9)	300	330
Deferred charges and intangible assets (note 10)	26,707	24,760

\$ 471,542 \$ 446,145

Liabilities

Current liabilities

Bank indebtedness (note 11)	\$ 1,331	\$ -
Accounts payable and accrued liabilities (note 12)	15,706	12,337
Construction financing (note 13)	28,000	-
Derivative related liability (note 28)	400	-
Current portion of long-term debt (note 19)	4,578	4,521

50,015 16,858

Construction financing (note 13)	-	12,000
Long-term pension liability (note 24)	950	1,160
Future removal and site restoration costs (note 14)	4,671	4,671
Decommissioning fund (note 15)	2,586	2,553
Contributions in aid of construction (note 16)	105,382	107,618
Regulatory hearing reserve (note 17)	224	106
Diesel contingency fund (note 18)	9,627	8,198
Long-term debt (note 19)	122,428	123,510

295,883 276,674

Equity

Contributed capital	41,501	41,501
Retained earnings	134,158	127,970

175,659 169,471

\$ 471,542 \$ 446,145

Commitments and Contingencies (notes 25 and 26)

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

Approved by the Board:

Chair

Director

Yukon Development Corporation

Consolidated Statement of Operations, Comprehensive Income and Retained Earnings

For the year ended December 31, (in thousands of dollars)	2014	2013
Revenue		
Sales of power (note 20)	\$ 39,355	\$ 38,571
Government of Yukon (note 1)	5,844	6,065
Allowance for funds used during construction	1,183	923
Amortization of capital assistance from Government of Yukon	506	377
Other income	275	280
Interest income	51	-
	47,214	46,216
Expenses		
Administration (note 21)	11,589	10,706
Operations and maintenance (note 22)	10,056	9,983
Amortization of property, plant and equipment	6,481	6,298
Interest on long-term debt	6,306	6,188
Amortization of deferred charges	2,210	2,689
Amortization of intangible assets	568	1,813
Provision for uninsured losses (note 9)	226	226
	37,436	37,903
Net income before other items	9,778	8,313
Interim electrical rebate program (note 1)	(3,070)	(3,046)
Unrealized gain (loss) on interest rate swaps (note 28)	(520)	786
Net income	6,188	6,053
Other comprehensive income	-	-
Comprehensive income	6,188	6,053
Retained earnings, beginning of year	127,970	121,917
Retained earnings, end of year	\$ 134,158	\$ 127,970

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

Yukon Development Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, (in thousands of dollars) 2014 2013

Operating activities		
Cash receipts from customers	\$ 46,702	\$ 50,579
Cash paid to employees and suppliers	(23,202)	(26,201)
Interest paid	(6,331)	(6,219)
Interest received	84	-
Cash provided by operating activities	17,253	18,159
Financing activities		
Repayment of long-term debt	(4,525)	(16,099)
Proceeds from long-term debt	3,500	-
Proceeds from construction financing	16,000	24,000
Contributions in aid of construction	721	2,469
Cash provided by financing activities	15,696	10,370
Investing activities		
Additions to property, plant and equipment	(35,020)	(27,847)
Additions to deferred charges and intangible assets	(4,156)	(1,514)
Cash used in investing activities	(39,176)	(29,361)
Net decrease in cash	(6,227)	(832)
Cash, beginning of year	8,858	9,690
Cash, end of year	\$ 2,631	\$ 8,858
Cash includes:		
Cash (note 5)	\$ 3,962	\$ 8,858
Bank indebtedness	(1,331)	-
Total	\$ 2,631	\$ 8,858

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

1. Nature of operations

Yukon Development Corporation (the "Corporation") was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission in the Yukon. In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's 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 Territory Water Board. Both of these boards are independent from the Utility.

The Corporation and the Utility are not subject to income taxes.

Rate regulation

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

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

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

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

The YUB assesses the 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 asset depreciation rates, which are periodically updated by the Utility through depreciation studies.

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

1. Nature of operations - continued

Water regulation

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

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 28).

Government of Yukon

In March 2014, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for 12 months at current levels, to March 31, 2015. 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 \$3.435 million per fiscal year. In 2014, the Corporation received \$3.218 million (2013 - \$3.44 million) in funding for the program. The total subsidy payments made by the Corporation during the current year were \$3.07 million (2013 - \$3.046 million).

The Corporation and the Government of Yukon 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 Government of Yukon will assist in funding the repayment of a portion of the bond interest costs of up to \$2.625 million annually, subject to the Corporation meeting specified terms set out in the agreement. The Corporation received \$1.628 million in 2014 (2013 - \$2.625 million) for bond interest costs.

The Corporation was directed to conduct Hydro-Electric Power planning studies. The Corporation recognized \$0.998 million as revenue in 2014 (2013 - \$Nil) for the Hydro-Electric Power planning studies from the Yukon Government.

2. Accounting changes

Future accounting changes

In February 2013, the Canadian Accounting Standards Board extended its existing deferral of the mandatory changeover to International Reporting Standards ("IFRS") for entities with rate regulated activities to January 1, 2015. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. IFRS 14, 'Regulatory deferral accounts', has been issued and this standard permits first-time adopters of IFRS to elect to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. The standard requires that the effect of rate regulation must be presented separately from other items. The Corporation may be required to prepare its financial statements in accordance with IFRS for its fiscal year ending December 31, 2015, and will be adopting IFRS 14. The IFRS statements, if prepared, will have comparative financial information and an opening statement of financial position beginning as of January 1, 2014.

3. Significant accounting policies

Financial statement presentation

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Yukon Development Corporation and its wholly owned subsidiary, Yukon Energy Corporation. All significant inter-company transactions and balances have been eliminated on consolidation.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

The consolidated financial statements reflect the rate regulated accounting policies adopted by the Utility which differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise.

The impact on the consolidated financial statements of accounting for rate regulated operations are further described in note 4. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies adopted by the Utility

Allowance for funds used during construction

The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The calculation of the estimate is based on the Utility's weighted average cost of debt. The AFUDC rate estimate was 4.01% for 2014 (2013 - 4.00%).

Property, plant and equipment

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

Deferred uninsured losses

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

Deferred charges

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

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

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

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

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. These costs are amortized over terms ranging between ten to forty five years.

Deferred Vegetation management costs are brushing costs in excess of an annual amount approved by the YUB.

Future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. As Per YUB Order 2005-12 no additional provisions are currently permitted.

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Deferred insurance proceeds

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

Diesel contingency fund

The Diesel Contingency Fund (DCF) was established by YUB Order 1996-6 through the Negotiated settlement process. The DCF is used to reimburse the Utility for costs associated with the diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The DCF attracts interest based upon short-term bond rates. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. The Utility is required to file an annual report with the YUB on the DCF's activity. See Note 4 for further explanation.

Regulatory hearing reserve

The Utility established a new deferral account for regulatory hearing costs which was approved by the YUB as part of the 2012-2013 GRA and YUB Order 2013-01. The annual provision is collected through customer rates. Variances between the annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Generally Accepted Accounting Principles ("GAAP") adopted by the Corporation and Utility

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.

Materials and supplies

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

Property, plant and equipment

Property, plant and equipment is stated at cost, other than the AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, a proportionate share of directly attributable administration overhead, and, if applicable, direct finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 103 years
Diesel plants	12 to 72 years
Wind turbines	30 years
Transmission	20 to 65 years
Distribution	12 to 55 years
Buildings	20 to 55 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Asset retirement obligations

On an annual basis the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Direct financing leases

Investments in direct finance leases are carried at the lower of cost and net realizable value.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or government. These contributions are deferred upon receipt and are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers and the Government of Canada is netted on the statement of operations against amortization expense while amortization of capital assistance from the Yukon Government is disclosed separately under Amortization of contributions from the Government of Yukon.

Deferred licensing costs

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

Employee pension plan

The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan. Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Pension costs include the adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight line basis over the expected average remaining service period of active employees, which is currently 8 years for the employee plan (2013 - 8 years) and 2 years for the executive plan (2013 - 3 years). The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Financial instruments

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

Cash

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

Accounts receivable

Accounts receivable, classified as loans and receivables, are initially measured at fair value. Subsequent to initial recognition, accounts receivable are measured at amortized cost using the effective interest method less any impairment.

Accounts payable and accrued liabilities

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

Construction financing and Long-term debt

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

Transaction costs

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

Derivative financial instruments

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

Fair value estimation

The carrying value of the cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities. The fair value of derivative financial instruments is estimated using standard market valuation techniques and is provided to the Corporation by the financial institution that is the counterparty to the transactions.

Environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Corporation reviews its estimates of future environmental liabilities on an ongoing basis as described in note 26.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Measurement uncertainty

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

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in note 4.

4. Financial statement effects of rate regulation

Diesel Contingency Fund and Energy Reconciliation Adjustment

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and ERA provisions of the Wholesale Primary rate schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes. In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. A decision was delivered February 6, 2015. In accordance with YUB Order 2015-01, the Utility defers any excess revenues collected from rate payers when the cost of diesel fuel consumed in the period is less than the long-term average diesel requirement estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the current period when the cost of diesel fuel consumed for the period is greater than the long-term average diesel requirement and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- \$8 million, for the DCF. If the balance falls outside of this range, the Utility is to make an application to the YUB to dispense with the excess (note 17). In accordance with YUB Order 2015-01, the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has requested the Utility to make another submission for the ERA in 2015.

Regulatory accounts

Certain items in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

In the absence of rate regulation the Utility's net income would have decreased by \$1,307,000 in 2014 (2013 - increased by \$4,240,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2014	2013	Expected remaining recovery/settlement (years)	For 2014 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets				
Deferred Fuel Price Adjustment	\$ 19	\$ 6	indeterminate	\$ (13)
Deferred charges (note 10), net book value				
Feasibility studies and infrastructure planning	\$ 17,452	\$ 16,481	5 to 10	\$ (971)
Deferred customer service costs	379	443	12	64
Regulatory costs	3,045	2,722	10 to 45	(323)
Dam safety review	24	48	5	24
IFRS planning	227	340	Indeterminate	113
Vegetation management	917	-	Indeterminate	(917)
Deferred uninsured losses (note 9)	300	330	Indeterminate	30
Deferred overhauls	\$ 5,269	\$ 3,600	5 to 10	\$ (598)
	27,632	23,970		(2,591)
Regulatory liabilities:				
Deferred insurance proceeds (note 16)	5,752	6,015	25	(263)
Future removal and site restoration costs (note 14)	4,671	4,671	Indeterminate	-
Regulatory Hearing reserve (note 17)	224	106	Indeterminate	118
Diesel contingency fund (note 18)	9,827	8,198	Indeterminate	1,429
	20,274	18,990		1,284
Net impact of assets and liabilities	\$ 7,358	\$ 4,980		\$ (1,307)

Regulatory assets

(a) Deferred charges

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

Feasibility studies and infrastructure planning

The Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2014 would have been \$971,000 higher (2013 - \$832,000 lower expenses).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Deferred Customer Service Costs

These are costs associated with negotiating terms of service with a new industrial customer in 2008. In the absence of rate regulation, expenses in 2014 would have been \$64,000 lower (2013 - \$64,000 lower expenses).

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. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2014 would have been \$323,000 higher (2013 - \$228,000 lower expenses).

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB 2009-8. In the absence of rate regulation, expenses in 2014 would have been \$24,000 lower (2013 - \$24,000 lower expenses).

IFRS planning

These costs are associated with the accounting conversion from Canadian GAAP to IFRS. In the absence of rate regulation, expenses in 2014 would have been \$113,000 lower (2013 - \$128,000 lower expenses).

Vegetation management

These deferred costs are associated with annual brushing costs in excess of the maximum amount approved by the YUB. Amortization of these costs has not yet been approved. In the absence of rate regulation, expenses in 2014 would have been \$917,000 higher (2013 - \$Nil higher expenses).

(b) Deferred uninsured losses

The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved the YUB. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of \$397,000 in the Faro mine dewatering deferral revenue account a at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of \$180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of \$190,000 in 2012 and each subsequent year. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2014 would have been lower by \$30,000 (2013 - \$178,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(c) Deferred overhauls

Overhauls represent costs incurred to overhaul engines that are in operations. The Utility was directed by the YUB Order 2013-01 to defer all overhead costs incurred after 2011 in construction in progress until the Utility comes before the Board for a prudence review and the costs are approved to be capitalized. GAAP would require that major overhauls that extend the life of the asset to be capitalized and amortized over the remaining useful life of the asset while all other overhauls are expensed in the year incurred. Total deferred overhaul costs were \$5,269,000 (2013 - \$3,600,000). In the absence of rate regulation, amortization expense in 2014 would have been \$598,000 higher (2013 - \$229,000 higher).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Regulatory liabilities

(d) Deferred insurance proceeds

The deferred insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, in the absence of rate regulation, the Utility's net income in 2014 would have been lower by the amount of the amortization of \$263,000 (2013 - \$261,000 lower).

(e) Future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1, 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations.

The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2014 expenses would have been higher by the amount of actual removal and site restoration costs incurred in the year nil (2013 expenses - \$40,000 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(f) Regulatory hearing reserve

Pursuant to the 2012-2013 GRA and YUB Order 2013-01 the Utility has established a new deferral account for future regulatory hearing costs. Included in the GRA is \$550,000 related to estimated hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. In a non-regulated industry, hearing costs would be expensed in the year incurred. In the absence of rate regulation, the Utility's 2014 expense would have been \$118,000 lower (2013 - \$106,000 lower).

(g) Diesel contingency fund

Under GAAP any amounts earned or incurred related to the DCF would be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income for 2014 would have been higher by \$1,429,000 (2013 - \$3,570,000 higher).

(h) Fuel price adjustment

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

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating results of the year that they are incurred. In 2014, fuel expenses were recovered and consequently higher by \$13,000 (2013 fuel expense higher by \$4,000).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Other items affected by rate regulation

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

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

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

5. Cash

The cash balance includes an amount of \$Nil (2013 - \$1,292,000) that is restricted for the payment of a contractor holdback.

6. Accounts receivable

	2014	2013
Wholesale energy sales	\$ 3,842	\$ 5,401
Retail energy sales	1,327	1,869
Other	2,860	1,011
	\$ 8,029	\$ 8,281

Included in Accounts Receivable Other is an amount equal to \$Nil (2013 - \$453,000) for additional ERA revenue receivable. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See note 4 for further explanation.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

7. Direct financing lease

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

	2014	2013
Direct financing leases	\$ 162	\$ 162
Less: current portion	-	-
	\$ 162	\$ 162

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 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 finance income.

8. Property, plant and equipment

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Generation	\$ 292,094	\$ 70,171	\$ 221,923	\$ 221,117
Transmission	143,327	24,519	118,808	119,845
Distribution	30,387	13,592	16,795	17,253
Buildings and other equipment	23,091	9,660	13,431	13,392
Transportation	4,549	1,584	2,965	2,886
Land and land rights	1,457	-	1,457	1,109
Construction-in-progress	53,219	-	53,219	24,137
	\$ 548,124	\$ 119,526	\$ 428,598	\$ 399,739

9. Deferred uninsured losses

	2014	2013
Balance, beginning of year	\$ 330	\$ 152
Provision	(226)	(226)
Losses incurred - Asset replacement	196	404
Balance, end of year	\$ 300	\$ 330

In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to amortize the negative balance in the account remaining at that time of \$180,000 over a five-year period starting in 2012. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of \$190,000 in 2012 and each subsequent year.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

10. Deferred charges and intangible assets

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Intangible assets:				
Deferred licensing costs	\$ 11,202	\$ 6,539	\$ 4,663	\$ 4,715
Deferred charges:				
Feasibility studies and infrastructure planning	22,124	4,672	17,452	16,481
IFRS planning	566	339	227	340
Regulatory costs	6,045	3,000	3,045	2,722
Deferred customer service costs	769	390	379	443
Dam safety review	332	308	24	48
Vegetation management costs	917	-	917	-
Deferred financing costs	110	110	-	11
	\$ 42,065	\$ 15,358	\$ 26,707	\$ 24,760

11. Bank indebtedness

The Utility has access to a \$17.5 million line of credit. The account accrues interest on withdrawals at prime minus 0.75% per annum. At December 31, 2014, the balance of the line of credit was \$1,416,019 (2013 - \$Nil).

12. Accounts payable and accrued liabilities

	2014	2013
Trade payables	\$ 14,332	\$ 11,486
Other	252	493
Employee compensation	1,122	358
	\$ 15,706	\$ 12,337

Included in Accounts Payable is an amount equal to \$Nil (2013 - \$453,000) for additional ERA revenues. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See note 3 for further explanation.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

13. Construction financing

	2014	2013
Construction financing due September 30, 2015, bearing interest at 1.314%, approved to a maximum of \$21.2 million	\$ 10,000	\$ -
Construction financing due September 30, 2015, bearing interest at 1.314%, approved to a maximum of \$18 million	18,000	12,000
	\$ 28,000	\$ 12,000

The Corporation's construction financing is summarized as follows:

	2014	2013
Current portion of construction financing	28,000	\$ -
Long-term construction financing	-	12,000
	\$ 28,000	\$ 12,000

Construction financing balances are monies advanced from the Yukon Government to the Corporation to fund the construction of the Utility's Liquid Natural Gas project.

Subsequent to year end, on January 23, 2015, the Corporation received the remaining \$11.2 million loan proceeds as part of the \$21.2 million Construction Financing agreement with the Yukon Government.

14. Future removal and site restoration costs

	2014	2013
Opening balance	\$ 4,671	\$ 4,711
Costs	-	(40)
Closing balance	\$ 4,671	\$ 4,671

15. Decommissioning fund

This account represents monies paid in advance by an industrial customer to decommission the spur line that connects their operation to the YEC grid. Under a power purchase agreement, the customer has the financial responsibility for decommissioning expenses. 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)

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

16. Contributions in aid of construction

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Contributions from Canada	\$ 71,000	\$ 3,048	\$ 67,952	\$ 68,943
Contributions from customers since 1998	24,003	7,581	16,422	16,996
Government of Yukon contributions	17,959	2,915	15,044	15,421
Pre - 1998 contributions	1,739	1,249	490	534
Deferred insurance proceeds	11,122	5,648	5,474	5,724
	\$ 125,823	\$ 20,441	\$ 105,382	\$ 107,618

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

17. Regulatory hearing reserve

	2014	2013
Balance, beginning of year	\$ 106	\$ -
Regulatory provision	550	550
Costs	(432)	(444)
Balance, end of year	\$ 224	\$ 106

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

18. Diesel contingency fund

	2014	2013
Balance, beginning of year	\$ 8,198	\$ 4,628
Transfers (note 4)	1,342	3,518
Interest	87	52
Balance, end of year	\$ 9,627	\$ 8,198

Subsequent to year end, the YUB approved amendment to the DCF which included a fund limit of \$8 million. In accordance with the rules established by the YUB, the Utility plans to implement a refund rider to return the excess funds to rate payers.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

19. Long-term debt

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

	2014	2013
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.	\$ 98,289	\$ 98,257
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.	5,830	7,662
The Toronto Dominion Bank		
The Corporation entered into an interest rate swaps to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 4.82% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017.	2,493	3,543
The Toronto Dominion Bank		
Bankers' Acceptances, the Utility entered into an interest rate swap to convert the interest rate from a variable interest rate to a fixed rate of 2.69% per annum. Principal drawdowns are monthly with the balance due on December 28, 2022.	10,366	10,687
TD Canada Trust		
\$12,400,000 term note bearing interest at 4.02% payable in monthly installments of \$94,406 interest and principal, with the balance due September 30, 2016. The note is guaranteed by the Yukon Government. The terms of the note were renewed October 3, 2011.	1,911	2,946
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 6.56% is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	4,375	4,625
Na-Cho Nyak Dun First Nation loan		
The loan from the First Nation is related to the construction of the Mayo B project and is repayable in equal annual principal repayments of \$38,888 with the final payment due in 2104. The interest rate is based on the actual rate of return earned by the Utility.	3,461	-

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

19. Long-term debt - continued

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 instalments, due in 2028.

	281	311
Total	\$ 127,006	\$ 128,031

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

	2014	2013
Total - balance forward	\$ 127,006	\$ 128,031
Less current portion	4,578	4,521
	\$ 122,428	\$ 123,510

Long-term debt repayment

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

2015	\$ 4,578
2016	4,443
2017	2,812
2018	551
2019	560
Thereafter	114,062
	\$ 127,006

Fair value

Fair value at December 31, 2014 of \$158 million (2013 - \$139 million) 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.

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 will be 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.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

20. Sales of power

	2014	2013
Wholesale	\$ 28,770	\$ 28,353
General service	4,095	3,668
Industrial	4,172	4,484
Residential	1,806	1,697
Secondary sales	410	275
Sentinal and street lights	102	94
	\$ 39,355	\$ 38,571

21. Administration expenses

	2014	2013
Wages and benefits	\$ 6,004	\$ 5,576
General office	1,645	1,442
Insurance and taxes	1,360	1,333
Information systems	736	700
Environmental	528	448
Programs	464	-
Training, recruitment and development	348	290
Board of Directors	322	189
Regulatory loss	120	658
Material management and contracting	62	70
	\$ 11,589	\$ 10,706

22. Operations and maintenance expenses

	2014	2013
Wages and benefits	\$ 5,626	\$ 5,302
Maintenance		
- lines and substations	1,345	1,656
- hydro, diesel and wind	1,596	1,306
- building and vehicle	1,102	1,135
Fuel and purchased power	227	360
Water level measurement	160	224
	\$ 10,056	\$ 9,983

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

23. Related party transactions

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

The following table summarizes the related party transactions for the year:

	2014	2013
Construction financing from YG	\$ 28,000	\$ 12,000
Contributions from YG for Interim Electrical Rebate program	3,218	3,440
Account receivable YG	1,832	402
Contributions from YG for Bond interest expense	1,628	2,625
Contributions from YG for Next Generation Hydro expense	998	-
Account payable YG	813	23
Program cost reimbursement from YG	118	100

24. Pension costs and obligations

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2015. An actuarial valuation for funding purposes of the executive employee defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2017. The pension costs and obligations were based on the data used in these funding valuations and have been projected to December 31, 2014 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2014. The distribution of assets by major asset class is as follows: equities - 53.5% (2013 - 53.1%), fixed income securities - 36.0% (2013 - 36.1%); and real estate - 10.5% (2013 - 10.8%).

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

	2014	2013
Accrued benefit obligation determined by actuarial valuation	\$ 20,690	\$ 17,953
Fair value of plan assets	14,672	13,284
Funded status - plan deficit	\$ 6,018	\$ 4,669
Unrecognized amounts:		
- Transitional asset (liability)	(13)	(73)
- Net accumulated actuarial losses	(5,020)	(3,436)
Accrued benefit liability	\$ 985	\$ 1,160
Less current portion	35	-
	\$ 950	\$ 1,160

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

24. Pension costs and obligations - continued

	2014	2013
Pension costs	\$ 865	\$ 1,175
Employer contributions	\$ 1,040	\$ 1,061
Employee contributions	\$ 100	\$ 108
Benefits paid	\$ 775	\$ 536
Significant assumptions for employee defined benefit plan:		
Discount rate - accrued benefit obligation	4.00%	4.75%
Discount rate - pension costs	4.75%	4.50%
Expected long-term rate of return on plan assets	6.25%	6.25%
Assumed rate of salary escalation	3.00%	3.00%
Significant assumptions for executive pension plans:		
Discount rate - accrued benefit obligation	4.75%	4.75%
Discount rate - pension costs	4.75%	4.25%
Expected long term rate of return on plan assets	5.50%	5.50%
Assumed rate of salary escalation	3.50%	3.50%

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

Employees joining after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and to employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2014 these were \$378,000 (2013 - \$353,000).

Total cash payments for employee future benefits for 2014, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$1,418,000 (2013 - \$1,414,000).

25. Commitments

Aishihik water license

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

Fish monitoring programs are also required under an authorization provided by the Federal Government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water license 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, 2014 as the product or service had not been provided. The commitment at year end is \$11,169,000 (2013 - \$6,730,000).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

26. Contingencies

Carmacks to Stewart Crossing Transmission Project

The Utility has been the subject of a legal claim for \$3 million by the line construction contractor on the Carmacks to Stewart Crossing Transmission Line project which was completed in June 2011. Subsequent to year end, on March 11, 2015, the Utility entered into an agreement for \$1.45 million to settle the Carmacks to Stewart Transmission Project Claim with the contractor. The settlement includes \$1.1 million in contract holdback that the Utility has previously recoded as a project cost. The remaining balance will be added to Property Plant and Equipment.

Aishihik Third Turbine Project

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

27. Environmental liabilities

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

The Utility has conducted environmental assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2014 no environmental liabilities, for which a legal obligation exists to remediate, has been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

28. Risk management and financial instruments

At December 31, 2014, the Corporation's financial instruments included cash, accounts receivable, short-term and long-term receivable, accounts payable and accrued liabilities, construction financing, long term debt and interest rate swaps.

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in note 19.

The Corporation has access to a \$17.5 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.25% per annum.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2014 (tabular amounts in thousands of dollars)

28. Risk management and financial instruments - continued

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. The interest rate swaps are designated as held for trading and are thus recognized at their fair value on the date the contract has been entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred. The fair value of the interest rate swaps is estimated using standard market valuation techniques and is provided to the 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 the fair value of a financial instrument will fluctuate due to changes in market interest rates. The future cash flows of the Corporation are not exposed to significant interest risk due to its long-term debt having fixed interest rates, with the exception of the Bankers' Acceptances from TD Bank whose variable rate has been converted to a fixed rate using interest rate swaps.

As at December 31, 2014, the Corporation had three interest rate swap agreements in place with notional principal amounts of \$16 million, \$11 million and \$8 million. The agreements effectively change the Corporation's interest rate exposure on these notional amounts from floating rates to fixed rates of 2.92%, 2.69% and 4.82% respectively.

The fair value of the interest rate swap agreements at December 31, 2014 was a liability of \$400,000. (2013 - \$120,000 asset). The interest rate swap agreements cover the notional debt amounts until 2017 at the fixed interest rates noted above. Fair values for interest rate swaps are provided by the financial institution with whom the swaps are held. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest swap agreements' fair value of \$778,000 at December 31, 2014 (2013 - \$940,000).

During the year the Corporation paid \$6.331 million of interest. (2013 - \$6.219 million)

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. Financial assets, which potentially subject the Corporation to concentrations of credit risk consist principally of cash, accounts receivable and long-term receivable. The maximum credit risk at December 31, 2014 is the fair value of these assets which totals \$12.153 million (2013 - \$17.301 million).

The credit risk related to cash is minimized as these assets are held with a Canadian chartered bank.

Accounts receivable are considered for impairment when they are past due or when objective evidence is received that a customer will default. Management has assessed that the credit risk for accounts receivable is minimal since its primary customer which makes up 47.9% (2013 - 65.2%) of the accounts receivable at December 31, 2014, is a regulated utility which has a history of positive cash flow. Consistent with prior years there were no balances owing that are older than 90 days and thus the Corporation did not recognize an allowance for doubtful accounts. There is also no history of impairment.

In order to minimize the credit risk on the long-term receivable, management obtained the security of assets for the loan and reviews the recoverable amount at each balance sheet date to ensure that adequate impairment losses are made for unrecoverable amounts. Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2014. Based on this analysis, management expected to collect the amount of the loan in its entirety.

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28. Risk management and financial instruments - continued

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'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 through active management of the assets and liabilities and cash flows. The carrying amount of accounts payable and accrued liabilities, construction financing and long term debt represents the maximum exposure to liquidity risk. At December 31, 2014, the Corporation's accounts payable and accrued liabilities had a carrying value of \$15.7 million (note 11) (2013 - \$12.3 million).

At December 31, 2014, the Corporation's long term debt had a carrying value of \$127.0 million (note 18) (2013 - \$128.0 million) and \$1.911 million is due in 2016 (2013 - \$2.946 million), \$8.323 million is due in 2017 (2013 - \$11.205 million), \$10.366 million is due in 2022 (2013 - \$10.687 million), \$0.281 million due in 2028 (2013 - \$0.311 million), \$98.289 million due in 2040 (2013 - \$98.257 million) and \$4.375 million is due in 2049 (2013 - \$4.6 million), and \$3.461 million is due in 2104 (2013 - \$0 million).

The Corporation had \$16.169 million (2013 - \$17.5 million) in undrawn credit facilities at its disposal to further reduce liquidity risk.

Fair values

The following table illustrates the fair value hierarchy of the Corporation's financial instruments as at December 31, 2014:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$ 400	-	\$ 400

The fair value of the derivative related asset in 2013 was \$120,000 and was classified as level 2.

29. Capital management

The Corporation's and the Utility's capital is their equity which is comprised of share capital and accumulated funds in the form of retained earnings. The Corporation and the Utility manage their equity by managing revenues, expenses, assets and liabilities to ensure their objectives are effectively achieved while remaining a going concern.

Corporation's and Utility's Capital Management Policy

The Corporation's policy is to minimize debt from operations to the maximum extent possible with available cash flows without impairing the working capital needs of the Corporation. The Corporation has no set debt to capital target, nor are there any loan agreements which impose any capital requirements on the Corporation.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings which is comprised of long-term debt, including the portion of long-term debt due within one year. Short term debt related to assets under construction at the balance sheet date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning of the spur line that connects an industrial customer's operations to the YEC grid has been added (note 14). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

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29. Capital management - continued

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.

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

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

(thousands of dollars)	2014	2013
Long-term debt due within one year	\$ 5,456	\$ 5,406
Long-term debt	125,955	125,906
Total debt	131,411	131,312
Add provision for decommissioning of industrial customer spur line	2,586	2,553
Total debt to include in the calculation	\$ 133,997	\$ 133,865
Share capital	\$ 39,000	\$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	43,109	35,437
Total shareholder's equity	96,709	89,037
Total capitalization	\$ 230,706	\$ 222,902
Total debt to total capitalization	58 %	60 %

Due to the expectation of increased capital requirements in 2015, the Utility decided not to declare a dividend in 2014 to increase the December 31, 2014 total debt to total capitalization ratio to 60%.

30. Non-consolidated financial information

The nature and size of operations of the Corporation and its wholly-owned subsidiary, Yukon Energy Corporation differ substantially. Audited financial statements of the Yukon Energy Corporation for the year ended December 31, 2014 are also prepared.

31. Subsequent events

On May 1, 2015, the Corporation entered into an Agreement with the Kwanlin Dun First Nation (KDFN) which allows KDFN to invest in the Utility's LNG project, in the form of a loan. KDFN may invest up to 50% of the projected cost of LNG project, or \$21.45 million, based on the total projected cost of \$42.9 million for the LNG project. Annual principal repayments are four percent of the loan plus interest for the next twenty five years. The interest rate is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.

32. Comparative figures

Certain 2013 figures, have been reclassified to conform with the current year's presentation.

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