Yukon

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

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 judgments 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

June 7, 2019

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 Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Yukon Development Corporation and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of the Yukon Development Corporation coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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.

In our opinion, the transactions of the Yukon Development Corporation that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Yukon Development Corporation Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for revenues as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year. In addition, in our opinion, proper books of account have been kept by the Yukon Development Corporation and the consolidated financial statements are in agreement therewith.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Yukon Development Corporation's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Yukon Development Corporation to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Lana Dar

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

Vancouver, Canada
7 June 2019

Yukon Development Corporation

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

December 31,	2018	2017
Assets		
Current		
Cash	$ 5,113	$ 2,704
Accounts receivable (Note 5)	8,133	8,520
Inventories (Note 6)	3,709	3,783
Prepaid expenses	661	678
Current portion of lease receivable (Note 7)	-	32
	17,616	15,717
Non-current		
Finance lease receivable (Note 7)	85	85
Property, plant and equipment (Note 8)	446,602	439,811
Intangible assets (Note 9)	10,584	8,476
Total assets	**474,887**	464,089
Regulatory deferral account debit balances (Note 10)	34,788	33,163
Total assets and regulatory deferral account debit balances	**$ 509,675**	$ 497,252
Liabilities		
Current		
Bank indebtedness (Note 11)	$ -	$ 7,294
Accounts payable and accrued liabilities (Note 12)	11,466	9,735
Construction financing (Note 13)	-	39,200
Current portion of deferred revenue (Note 17)	1,700	-
Derivative related liability (Note 25)	-	56
Current portion of long-term debt (Note 14)	2,980	1,395
	16,146	57,680
Non-current		
Post-employment benefits (Note 15)	5,768	6,116
Contributions in aid of construction (Note 16)	77,791	93,495
Decommissioning fund	-	2,665
Deferred revenue (Note 17)	10,194	-
Derivative related liability (Note 25)	1,042	-
Long-term debt (Note 14)	192,843	133,177
Total liabilities	**303,784**	293,133
Equity		
Contributed capital	41,501	41,501
Retained earnings	147,376	143,819
Total equity	**188,877**	185,320
Total liabilities and equity	492,661	478,453
Regulatory deferral account credit balances (Note 10)	17,014	18,799
Total liabilities, equity and regulatory deferral account credit balances	**$ 509,675**	$ 497,252

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

Yukon Development Corporation

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

For the year ended December 31,	2018	2017
Revenues		
Sales of power (Note 18)	$ 47,691	$ 44,681
Yukon Government contributions (Note 21)	7,340	6,902
Other	314	371
	55,345	51,954
Operating expenses		
Operations and maintenance (Note 19)	23,487	18,329
Depreciation and amortization (Notes 8 and 9)	12,906	13,133
Administration (Note 20)	12,611	11,646
	49,004	43,108
Income before other income and other expenses	**6,341**	8,846
Other income		
Amortization of contributions in aid of construction (Note 16)	2,082	2,617
Allowance for funds used during construction	535	461
Interest income	48	41
Unrealized gain on interest rate swaps (Note 25)	-	374
	2,665	3,493
Other expenses		
Interest on borrowings	8,089	7,545
Interim electrical rebate program subsidies (Note 1)	3,319	3,251
Innovative renewable energy initiative program subsidies (Note 1)	1,168	-
Unrealized loss on interest rate swaps (Note 25)	986	-
	13,562	10,796
Net (loss) income for the year before net movement in regulatory deferral account balances	**(4,556)**	1,543
Net movement in regulatory deferral account balances related to net income (Note 10(d))	7,563	6,276
Net income for the year and net movement in regulatory deferral account balances	**3,007**	7,819
Other comprehensive income		
Item that will not be reclassified to net income in subsequent periods		
Remeasurement of defined benefit pension plans (Note 15)	**550**	(128)
Total comprehensive income for the year	**$ 3,557**	$ 7,691

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

Yukon Development Corporation

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

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 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**
Net income for the year and net movement in regulatory deferral account balances	-	3,007	-	3,007
Other comprehensive income	-	-	550	550
Transfer of remeasurement of defined benefit pension plans to retained earnings	-	550	(550)	-
Balance at December 31, 2018	**$ 41,501**	**$ 147,376**	**$ -**	**$ 188,877**

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

Yukon Development Corporation

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

For the year ended December 31,	**2018**	2017
Operating activities		
Cash receipts from customers	$ 48,298	$ 43,391
Cash receipts from Yukon Government	7,081	6,491
Cash receipts from contributions in aid of construction	78	334
Cash paid to suppliers	(25,035)	(22,779)
Cash paid to employees	(12,898)	(12,126)
Interest paid	(7,347)	(6,920)
Interest received	48	41
Cash provided by operating activities	**10,225**	8,432
Financing activities		
Proceeds from long-term debt	23,600	-
Repayment of long-term debt	(1,549)	(3,667)
Cash provided by (used in) financing activities	**22,051**	(3,667)
Investing activities		
Additions to property, plant and equipment	(19,698)	(10,346)
Additions to intangible assets	(2,875)	(2,248)
Cash used in investing activities	**(22,573)**	(12,594)
Net increase (decrease) in cash	9,703	(7,829)
Cash, beginning of year	(4,590)	3,239
Cash, end of year	**$ 5,113**	$ (4,590)
Cash includes:		
Cash	$ 5,113	$ 2,704
Bank indebtedness (note 11)	-	(7,294)
Total	**$ 5,113**	$ (4,590)

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2018 (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 2180 Second Avenue, Suite 234 Whitehorse, YT, Y1A 5N6.

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, YT, 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.

1. Nature of operations - continued

It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

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

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

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: wholesale, general service, industrial, residential, sentinel and street lights and secondary sales. 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 approval of revenue requirement and related rate increases. After responding to multiple rounds of interrogatories and participating in an oral public hearing, the Corporation received an order on its application in December 2018. The Corporation has responded to that order as directed and awaits the YUB's final direction.

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. Final increases are subject to approval of the YUB, including any necessary recovery riders for increases effective for the test years.

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.

The key findings in YUB Order 2018-10 was a direction to the Corporation to update the 2017 revenue requirement based on the 2017 actual results and to replace the Diesel Contingency Fund ("DCF") with the Low Water Reserve Fund ("LWRF"). See note 10(b)(iii) for details on the LWRF impact.

Subsequent to the year end, the YUB issued a Board Order 2019-02 which reduced the LWRF refund to customers to $0.00 per kWh starting April 1, 2019. This will reduce the cash refunded in note 10(b)(iii).

These consolidated financial statements reflect the requested rate increase for 2017 and 2018, and all other YUB board orders requested in the GRA which affect the Corporation's consolidated financial statements for 2018. 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

1. Nature of operations - continued

c) Water regulation
The Yukon Water Board, pursuant to the *Yukon Waters Act*, decides if and for how long the 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. The current water licenses have the following terms:

Aishihik Generating Station	December 31, 2019
Mayo Generating Station	December 31, 2025
Whitehorse Generating Station	December 31, 2025

The Corporation is collaborating with stakeholders and regulators to ensure the Aishihik licence is renewed on a timely basis.

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 2018, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for 12 months at current levels, to March 31, 2019. 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.

The Corporation was directed to conduct Renewable Energy Power planning studies.

The Corporation signed an agreement with the Yukon Government for total funding of up to $1.5 million to conduct Innovative Renewable Energy Initiative programs throughout the Yukon.

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 June 7, 2019.

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 except for the changes related to adoption of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*, as described in note 3(p).

a) Revenue recognition

The Corporation recognizes revenue from contracts where the right to consideration from a customer corresponds directly with the value to the customer of the Corporation's performance completed to date.

The majority of the Corporation's revenues from contracts with customers are derived from the generation, transmission, distribution, purchase and sales of electricity under the *Public Utilities Act.* The Corporation evaluates whether the contracts it enters into meet the definition of a contract with a customer at the inception of the contract and ongoing basis if there is an indication of a significant change in facts and circumstances. Revenue is measured based on the transaction price specified in a contract with a customer. Revenue is also recognized when control over a promised good or service is transferred to the customer and the Corporation is entitled to consideration as a result of completion of the performance obligation.

The Corporation recognizes a contract asset or deferred revenue for the contracts where the performance obligation has not been satisfied. Deferred revenue is recognized when the Corporation receives consideration before the performance obligations have been satisfied. A contract asset is recorded when the Corporation has rights to consideration for the completion of a performance obligation when that right is conditional on something other than the passage of time. The Corporation recognizes unconditional rights to consideration separately as a trade receivable. Contract assets are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

Electricity sales contracts are deemed to have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other obligations in the contracts and therefore not distinct. These performance obligations are considered to be satisfied over time as electricity is delivered because of the continuous transfer of control to the customer. The method of revenue recognition for the electricity is an output method, which is based on the volume delivered to the customer.

The Corporation's electricity sales are calculated based on the customers usage of electricity during the period at the applicable published rates for each customer class. Electricity rates in Yukon are set by the YUB. Electricity sales include an estimate of electricity deliveries not yet billed at period-end. The estimated unbilled revenue is based on several factors, including estimated consumption by customer, applicable customer rates and the number of days between the last billing date and the end of the period.

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.

3. Significant accounting policies - continued

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 certain regulatory deferral accounts 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.

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.

i) Financial assets

Cash, finance lease receivable, and accounts receivable, plus any transaction costs that are directly attributable to the acquisition of the financial asset, are initially measured at fair value. Subsequent to initial recognition, cash is measured at amortized cost and finance lease receivable and accounts receivable are measured at amortized cost using the effective interest rate method less any impairment. The Corporation's business model is to hold these assets to collect contractual cash flows.

A provision for impairment of accounts receivable is established applying the expected credit loss model based on all possible default events over the expected life of the financial asset 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. For trade accounts receivable, the Corporation applies the simplified approach which requires expected lifetime losses to be recognized from initial recognition of the receivables. For the other receivables, at the reporting date, if credit risk has increased significantly since initial recognition, the Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses, otherwise, if the credit risk has not increased significantly since initial recognition, the Corporation measures the loss allowance at an amount equal to 12-month expected credit losses.

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. A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Corporation has transferred its rights to receive cash flows from the asset and has transferred substantially all of the risk and rewards of the asset.

3. Significant accounting policies - continued

ii) Financial liabilities

Bank indebtedness, accounts payable and accrued liabilities, construction financing and long-term debt are initially measured at fair value less any transaction costs that are directly attributable to the issuance of the financial liability. Subsequent to initial recognition, these financial liabilities 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 fair value through profit and loss 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.

A financial liability is derecognized when the obligation is discharged or cancelled, or expires.

g) Leasing

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

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

h) Property, plant and equipment

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

AFUDC is 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

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 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 assets

Property, plant and equipment, 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.

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"). 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.

3. Significant accounting policies - continued

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 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, *Regulatory Deferral Accounts*, 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 performance obligations are met.

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.

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.

3. Significant accounting policies - continued

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 financial 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) 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.

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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

p) Impact of adoption of new accounting standards

i) Impact of Adoption of IFRS 9, *Financial Instruments*

The Corporation has adopted IFRS 9 with a date of initial application of January 1, 2018 and applied its provisions retrospectively without restatement of comparative periods which are accounted for under IAS 39, *Financial Instruments - Recognition and Measurement*. The key changes to the Corporation's accounting policies from its adoption of IFRS 9 are summarized below.

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Classification assessments have been made on the basis of the facts and circumstances that existed at that date of initial application, including the business model within which the financial asset is held. The following table shows the new measurement categories of financial assets and liabilities under IFRS 9 as compared to the Corporation's previous policy under IAS 39 as at January 1, 2018:

Financial Assets	**IAS 39**	**IFRS 9**
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Finance lease receivable	Loans and receivables	Amortized cost
Derivative related assets	Held for trading	FVTPL
Financial Liabilities		
Bank indebtedness	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Construction financing	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Derivative related liability	Held for trading	FVTPL

Under IFRS 9, the Corporation recognizes impairment of its financial assets using the expected credit loss model as described in note 3(f). Under the Corporation's previous accounting policy, a provision for impairment of accounts receivable was established when there was objective evidence that the Corporation would not be able to collect all amounts due according to the original terms of the receivables. The application of the expected credit loss model to determine the allowance for doubtful accounts, and the impacts of the classification changes noted in the table above had no impact on the Corporation's balances as at January 1, 2018 and December 31, 2018.

ii) Impact of adoption of IFRS 15, *Revenue from Contracts from Customers*

The Corporation adopted IFRS 15 on January 1, 2018, applying its provisions retroactively with the cumulative effect of initially applying the Standard recognized at the date of initial application (January 1, 2018) with no restatement of prior year consolidated financial statements, and applying IFRS 15 only to contracts not completed as of January 1, 2018.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

3. Significant accounting policies - continued

IFRS 15 contains a single model that applies to all contracts with customers and has two approaches to recognizing 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. Comparative information has not been restated and continues to be reported under IAS 18, *Revenue.*

The following table summarizes the impacts of adopting IFRS 15 on the Corporation's Consolidated Statement of Financial Position as at December 31, 2018 and on its Consolidated Statement of Operations and Other Comprehensive Income for the year ended for each of the line items affected. There was no impact on the Corporation's consolidated statement of cash flows for the year ended December 31, 2018. Upon adoption of IFRS 15, the Corporation did not recognize any contract assets.

Affected line items	As reported December 31, 2018	Adjustments	Amounts without adoption of IFRS 15
Impact on the Consolidated Statement of Financial Position			
Deferred revenue - current portion (i)	1,700	(1,700)	-
Deferred revenue - non-current portion (i)	10,194	(10,194)	-
Contributions in aid of construction (i),(ii)	77,791	13,197	90,988
Decommissioning fund (i),(iii)	-	2,713	2,713
Regulatory deferral account credit balances (iv)	17,014	(4,624)	12,390
Retained earnings (iv)	147,376	-	147,396
Impact on the Consolidated Statement of Operations and Other Comprehensive Income			
Sales of power (ii)	47,691	(1,669)	46,022
Amortization of contributions in aid of construction (ii)	2,082	1,198	3,280
Subtotal - impact of the line items above on net (loss) income for the year before net movements in regulatory deferral account balances	(4,556)	(471)	(5,027)
Net movements in regulatory deferral account balances related to net income (iv)	7,563	471	8,034
Total comprehensive income for the year (iv)	3,557	-	3,557

(i) In accordance with IFRS 15, contract liabilities are presented on the face of the consolidated financial statements. The Corporation has presented its contract liabilities as deferred revenue.
(ii) In accordance with IFRS 15, the Corporation has one performance obligation related to its contracts with customers. As a result, cash contributions received from customers are recognized as revenue when the performance obligation is satisfied, and classified as sales of power upon revenue recognition. Previously, in accordance with IFRIC 18, *Transfers of Assets from Customers*, these amounts were deferred as contributions in aid of construction and amortized over the life of the related asset as amortization of contributions in aid of construction.
(iii) In accordance with IFRS 15, the decommissioning fund is a contract liability and is presented as a deferred revenue.
(iv) As a result of the adoption of IFRS 15, there is a timing difference that affects the regulatory deferral account credit balance, as described in note 10(b)(v). Due to the Corporation's accounting policies in accordance with IFRS 14 there is no net impact of IFRS 15 adoption on retained earnings as at January 1, 2018 or December 31, 2018, or on total comprehensive income for the year.

3. Significant accounting policies - continued

q) New standards and interpretations not yet adopted
The standard IFRS 16, *Leases* is not yet effective for the year ended December 31, 2018, and has not been applied in preparing these consolidated financial statements.

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 non-financial assets - Notes 3(j)
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 3(l) 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 - Notes 3(h) and 8
Significant components of property, plant and equipment are depreciated over their estimated useful lives. Useful lives are determined based on current facts and past experience and the results of depreciation studies. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates. As such, assets may continue in use after being fully depreciated, or may be retired or disposed of before being fully depreciated. The latter could result in additional depreciation expense in the period of disposition.

4. Significant accounting judgements, estimates and assumptions - continued

Intangible assets - Notes 3(i) 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.

Post-employment benefits - Notes 3(o) 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 3(a), 3(p) and 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. Significant judgements have also been made in determining the nature of the Corporation's performance obligations, the appropriate process measure and the contract terms to be used in recognizing the related revenue.

Provisions and contingencies - Notes 3(l), 3(m), 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 3(f) 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, in accordance with IFRS 9, *Financial Instruments*. 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

4. Significant accounting judgements, estimates and assumptions - continued

Regulatory deferral account balances - Notes 1(b), 3(k) and 10
The Corporation accounts for its regulatory deferral accounts in accordance with IFRS 14 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 amounts that the YUB will approve the Corporation to collect deferred costs through future rates.

5. Accounts receivable

		2018		2017
Trade accounts receivable				
Wholesale energy sales	$	4,599	$	4,227
Retail energy sales		1,601		2,366
Due from related parties (Note 21)		1,277		1,358
Other		656		569
	$	**8,133**	$	8,520

At December 31, 2018, the aging of accounts receivable is as follows:

		Current		31 - 90 Days		Over 90 Days		**Total**
Accounts receivable	$	7,462	$	677	$	4	$	8,143
Allowance for doubtful accounts		-		(6)		(4)		(10)
	$	**7,462**	**$**	**677**	**$**	**-**	**$**	**8,133**

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**

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

		2018		2017
Allowance for doubtful accounts at beginning of year	$	(10)	$	(10)
Amounts written off as uncollectable		-		-
Allowance for doubtful accounts at end of year	$	**(10)**	$	(10)

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

6. Inventories

	2018	2017
Materials and supplies	$ 3,067	$ 3,343
Diesel fuel	457	337
Liquefied natural gas	185	103
	$ 3,709	$ 3,783

7. Direct financing lease

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

	2018	2017
Direct financing leases	$ 85	$ 117
Less: current portion	-	32
	$ 85	$ 85

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, 2016(i)	$ 278,459	$ 161,392	$ 16,421	$ 4,266	$ 11,358	**$ 471,896**
Additions	-	-	-	553	12,590	**13,143**
Transfers	16,274	2,604	1,295	-	(20,173)	**-**
Disposals	-	-	(189)	(238)	-	**(427)**
At December 31, 2017	294,733	163,996	17,527	4,581	3,775	**$ 484,612**
Additions	-	-	-	-	19,832	**19,832**
Transfers	10,182	8,733	969	306	(20,190)	**-**
Disposals	(1,783)	(47)	(220)	-	-	**(2,050)**
At December 31, 2018	**$ 303,132**	**$ 172,682**	**$ 18,276**	**$ 4,887**	**$ 3,417**	**$ 502,394**

December 31, 2018 (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, 2016(i)	$ 14,379	$ 15,414	$ 2,428	$ 873	$ -	**$ 33,094**
Depreciation	6,260	4,288	1,229	306	-	**12,083**
Disposals	-	-	(189)	(187)	-	**(376)**
At December 31, 2017	20,639	19,702	3,468	992	-	**$ 44,801**
Depreciation	6,575	4,362	608	319	-	**11,864**
Disposals	(643)	(8)	(222)	-	-	**(873)**
At December 31. 2018	**$ 26,571**	**$ 24,056**	**$ 3,854**	**$ 1,311**	**$ -**	**$ 55,792**
Net book value:						
At December 31, 2017	$ 274,094	$ 144,294	$ 14,059	$ 3,589	$ 3,775	**$ 439,811**
At December 31, 2018	$ 276,561	$ 148,626	$ 14,422	$ 3,576	$ 3,417	**$ 446,602**

(i) The Corporation reviewed the presentation of its property, plant and equipment and certain balances related to Cost and Accumulated depreciation were revised in order to properly reflect in the note those assets that had been disposed of and those that had been reclassified. As a result both the Cost and Accumulated depreciation of property, plant and equipment as at December 31, 2016 were increased by $4,033,000. There was no impact on the total net carrying amounts or on the Consolidated Statement of Financial Position.

The AFUDC capitalized for 2018 was $540,000 (2017 - $466,000). The AFUDC rate estimate for 2018 was 2.36% (2017 - 2.36%).

9. Intangible assets

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

	Software	Deferred Service Costs	Financial Software	Aishihik Water License	Thermal and Water Licensing	Total
Cost:						
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**
Additions	791	-	-	1,983	376	**3,150**
Disposals	-	-	-	(466)	-	**(466)**
At December 31, 2018	**$ 1,481**	**$ 443**	**$ 2,406**	**$ 7,461**	**$ 3,201**	**$ 14,992**
Accumulated amortization:						
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**
Amortization	183	64	284	479	32	**1,042**
Disposals	-	-	-	(466)	-	**(466)**
At December 31, 2018	**$ 460**	**$ 320**	**$ 1,418**	**$ 2,081**	**$ 129**	**$ 4,408**

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

9. Intangible assets - continued

Net book value:						
At December 31, 2017	$ 413	$ 187	$ 1,272	$ 3,876	$ 2,728	**$ 8,476**
At December 31, 2018	$ 1,021	$ 123	$ 988	$ 5,380	$ 3,072	**$ 10,584**

The internally generated costs and externally purchased costs for Software and Financial Software are approximately 50% internal and 50% external at December 31, 2018 and December 31, 2017. All other categories are almost exclusively internally generated.

10. Regulatory accounts

a) 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, 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**
Costs incurred	1,091	-	645	-	-	651	**2,387**
Regulatory provision	-	-	-	-	-	(267)	**(267)**
Disposals	(69)	-	-	-	-	-	**(69)**
At December 31, 2018	**$ 22,877**	**$ -**	**$ 5,074**	**$ 2,216**	**$ 148**	**$ 1,843**	**$ 32,158**
Accumulated amortization:							
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**
Amortization	1,791	-	405	222	30	212	**2,660**
Disposals	(69)	-	-	-	-	-	**(69)**
At December 31, 2018	**$ 5,079**	**$ -**	**$ 1,001**	**$ 444**	**$ 60**	**$ 424**	**$ 7,008**
Net book value:							
At December 31, 2017	$ 18,498	$ -	$ 3,833	$ 1,994	$ 118	$ 1,247	**$ 25,690**
At December 31, 2018	$ 17,798	$ -	$ 4,073	$ 1,772	$ 88	$ 1,419	**$ 25,150**

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, 2017	$ 268	$ -	$ 372	$ (222)	$ (30)	$ 188	**$ 576**
December 31, 2018	$ (700)	$ -	$ 240	$ (222)	$ (30)	$ 172	**$ (540)**
Remaining recovery years							
At December 31, 2017	1 to 9 years	0 years	2 to 36 years	9 years	4 years	Indeterminate	-
At December 31, 2018	1 to 8 years	0 years	1 to 35 years	8 years	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, 2017	$ (268)	$ -	$ (372)	$ 222	$ 30	$ (188)	**$ (576)**
December 31, 2018	$ 700	$ -	$ (240)	$ 222	$ 30	$ (172)	**$ 540**

December 31, 2018 (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)	2017/18 GRA (ix)	Total
Cost:					
At December 31, 2016	$ 28,231	$ 2,768	$ (2)	$ -	$ 30,997
Costs 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
Cost incurred	2,387	-	-	-	2,387
Regulatory provision	(267)	-	1,321	2,696	3,750
Disposals	(69)	-	-	(1,705)	(1,774)
At December 31, 2018	$ 32,158	$ 2,768	$ 1,819	$ 5,310	$ 42,055
Accumulated amortization:					
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
Amortization	2,660	147	-	1,705	4,512
Disposals	(69)	-	-	(1,705)	(1,774)
At December 31, 2018	$ 7,008	$ 259	$ -	$ -	$ 7,267
Net book value:					
At December 31, 2017	$ 25,690	$ 2,656	$ 498	$ 4,319	$ 33,163
At December 31, 2018	$ 25,150	$ 2,509	$ 1,819	$ 5,310	$ 34,788
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, 2017	$ 576	$ (112)	$ 500	$ 4,319	$ 5,283
December 31, 2018	$ (540)	$ (147)	$ 1,321	$ 991	$ 1,625
Remaining recovery years					
At December 31, 2017		4 to 9 years	1 year	1 year	
At December 31, 2018		3 to 8 years	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, 2017	$ (576)	$ 112	$ (500)	$ (4,319)	$ (5,283)
December 31, 2018	$ 540	$ 147	$ (1,321)	$ (991)	$ (1,625)

(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.

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. This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(v) Dam safety review
The Corporation has a program of conducting safety reviews of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are 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. There is an annual regulatory provision of $267,000 and amortization of the 2016 accumulated balance of $1,059,000 over five years ($212,000 per year). This change is consistent with the 2017-2018 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

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 and began to recognize these deferred depreciation amounts. In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(viii) Fuel price adjustment
OIC 1995/90 directs the YUB to permit the Corporation to adjust electricity rates to reflect the 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. This change is consistent with the 2017-2018 GRA. Refer to Note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

(ix) 2017/18 GRA

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 plus return on rate base, as described in note 1(b). The amount recognized represents management's best judgment and estimate of the expected approval by the YUB. The ending balance at December 31, 2018 comprises the Corporation's remaining revenue shortfall to be collected in future years. This change is consistent with 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 that have or will be submitted for approval by the YUB to be deferred. There are no deferred gains or losses during any of the reporting years.

b) Regulatory deferral account credit balances

	Deferred Insurance Proceeds (i)	Hearing Reserve (ii)	Low Water Reserve (iii)	Future Removal and Site Restoration (iv)	Contracts with Customers (v)	Total
Cost:						
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
Impact of IFRS 15 (note 3(p)(ii))	-	-	-	-	4,153	4,153
Adjusted balance						
At December 31, 2017	11,122	1,220	8,742	4,303	4,153	29,540
Costs incurred	-	(155)	(893)	(339)	-	(1,387)
Regulatory provision	-	250	(2,033)	-	471	(1,312)
Cash received	-	-	77	-	-	77
Cash refunded	-	-	(2,875)	-	-	(2,875)
At December 31, 2018	$ 11,122	$ 1,315	$ 3,018	$ 3,964	$ 4,624	$ 24,043
Accumulated amortization:						
At December 31, 2016	$ 6,147	$ -	$ -	$ -	$ -	$ 6,147
Amortization	247	194	-	-	-	441
Disposals	-	-	-	-	-	-
At December 31, 2017	6,394	194	-	-	-	6,588
Amortization	247	194	-	-	-	441
Disposals	-	-	-	-	-	-
At December 31, 2018	$ 6,641	$ 388	$ -	$ -	$ -	$ 7,029
Net book value:						
At December 31, 2017	$ 4,728	$ 1,026	$ 8,742	$ 4,303	$ -	$ 18,799
At December 31, 2018	$ 4,481	$ 927	$ 3,018	$ 3,964	$ 4,624	$ 17,014

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, 2017	$ 247	$ (53)	$ 743	$ 56	$ -	$ 993
December 31, 2018	$ 247	$ 99	$ 5,724	$ 339	$ (471)	$ 5,938

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

10. Regulatory accounts - continued

Regulatory deferral account credit balances

Remaining recovery years						
At December 31, 2017	19 years	Indeterminate	Indeterminate	Indeterminate		
At December 31, 2018	18 years	Indeterminate	Indeterminate	Indeterminate	49 Years	

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, 2017	$ (247)	$ 53	$ (743)	$ (56)	$ -	$ (993)
December 31, 2018	$ (247)	$ (99)	$ (5,724)	$ (339)	$ 471	$ (5,938)

(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. This change is consistent with the 2017-18 GRA. Refer to note 1(b). In the absence of rate regulation, IFRS requires these costs to be expensed as incurred.

(iii) Low Water Reserve Fund

The Low Water Reserve Fund ("LWRF") was established by YUB Order 2018-10. The LWRF is used to protect the Corporation and ratepayers for costs associated with variability in thermal generation required when there is a thermal cost variance due solely to water-related hydro generation variances from YUB approved GRA forecasts. The LWRF replaces the Diesel Contingency Fund ("DCF") which provided similar risk mitigation but did not include natural gas thermal generation in its determinations.

The LWRF 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 LWRF'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 thermal consumed in the period is less than the long-term average thermal requirements estimated for the actual annual generation load. These deferred amounts are recognized as revenue in the period when the cost of thermal incurred for the period is greater than the long-term average thermal requirements and the reason for the shortfall is a shortage of water in the hydro system. However, in YUB Order 2018-10, the Corporation was ordered to record 2017 thermal generation amounts based on actual thermal generation amounts, not modelled amounts. As a result, the Corporation has recorded the additional cost of thermal initially reported in 2017 as an adjustment to 2018 Regulatory Provision ($2.033 million). The YUB has set a cap rate of +/- $8 million for the LWRF. 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. Subsequent to year end this refund amount has been changed.

10. Regulatory accounts - continued

In the absence of rate regulation, IFRS requires any amounts earned or incurred related to the LWRF 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.

(v) Contracts with customers
Effective January 1, 2018 the Corporation adopted IFRS 15, as described in note 3(p)(ii). As a result of the impacts of IFRS 15, certain revenues are recognized in the consolidated statement of operations and other comprehensive income over a shorter period than allowed by the YUB for rate-setting purposes. The timing difference is reflected as a regulatory deferral account credit balance. In the absence of rate regulation, the IFRS 15 transition adjustment would increase the Corporation's opening retained earnings by $4,153,000.

(c) Regulatory account expenses

Regulatory account expenses represent costs incurred related to regulatory account debit balances of $2,387,000 (2017 - $3,844,000) and regulatory account credit balances of $1,387,000 (2017 - $59,000).

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

Net movement in regulatory deferral account balances related to net income is $7,563,000 (2017 - $6,276,000) 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 $7,563,000 is comprised of an increase of $1,625,000 for regulatory account debit balances and a decrease of $5,938,000 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 $6,276,000 for 2017 is comprised of an increase of $5,283,000 and $993,000 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. Refer to the interest rate risk section within note 25.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

12. Accounts payable and accrued liabilities

	2018	2017
Trade payables	$ 9,552	$ 7,794
Employee compensation	955	1,328
Due to related parties (Note 21)	920	551
Other	39	62
	$ 11,466	$ 9,735

13. Construction financing

	2018	2017
Construction financing due March 31, 2018, bearing interest at 1.51%, 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
Construction financing due March 31, 2018, bearing interest at 1.51%, 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
	$ -	$ 39,200

The Corporation's construction financing is summarized as follows:

	2018	2017
Current portion of construction financing	$ -	$ 39,200
Long-term construction financing	-	-
	$ -	$ 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 during 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

14. Long-term debt

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

	2018	2017
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).	$ 98,436	$ 98,397
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).	8,991	9,348
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 3.665% per annum. Payable in monthly installments of $120,246 interest and principal with the balance due on August 23, 2038 (iii).	23,406	-
Yukon Government The Corporation entered into a refinance agreement for construction financing. 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 with the balance due on March 31, 2023.	39,200	-
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 7.526% (2017-7.406%) is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	3,875	4,000
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 8.99% (2017-8.69%)is based on the actual rate of return earned by the Utility.	3,288	3,331

December 31, 2018 (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 5.144% (2017-4.736%) is based on a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	18,466	19,306
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.	161	190
Total	**195,823**	134,572
Less: current portion	2,980	1,395
	$ 192,843	$ 133,177

(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.

(iii) **Toronto Dominion Bank Loan and Interest Rate Swap**
On August 23, 2018, 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 August 23, 2038.

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

2019	$ 2,980
2020	3,018
2021	3,041
2022	10,529
2023	2,696
Thereafter	173,559
	$ 195,823

14. Long-term debt - continued

The change in long-term debt arising from financing activities during the year related to principal repayment of $1,549,000 and the issuance of additional debt in the amount of $23,600,000. An amount of $39,200,000 changed to long term debt in the current year from Construction financing.

Fair value
The fair value of long-term debt at December 31, 2018 is $221 million (December 31, 2017 - $168 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 2018, these were $499,000 (2017 - $454,000).

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 to 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 $148,300 as a minimum annual payment during years 2018-2027, reducing to $110,300 for 2028, and further reducing to $61,000 per year during years 2029-2032 (2017 - $87,300 annually for 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

Net defined benefit liability

	2018	2017
Present value of benefit obligations		
Balance, beginning of year	$ 24,775	$ 22,980
Employee contributions	73	84
Current service cost	403	543
Interest cost	847	910
Benefits paid	(680)	(559)
Actuarial gains on experience	(235)	(755)
Actuarial losses on demographic assumptions	215	-
Actuarial (gains) losses on financial assumptions	(1,899)	1,572
Balance, end of year	**$ 23,499**	$ 24,775
Fair value of plan assets		
Balance, beginning of year	18,659	17,113
Interest income on plan assets	632	671
(Losses) gains on plan assets	(1,369)	688
Employee contributions	74	84
Employer contributions	438	674
Benefits paid	(643)	(521)
Administrative costs	(60)	(50)
Balance, end of year	**17,731**	18,659
Net defined benefit liability	**$ 5,768**	$ 6,116

Components of benefit plan cost

	2018	2017
Current service cost	$ 403	$ 543
Interest cost	847	910
Interest income on plan assets	(632)	(671)
Administrative costs	60	50
Defined benefit expense in Consolidated Statement of Operations	**678**	832
Defined contribution expense	499	454
Total benefit expense in Consolidated Statement of Operations	**$ 1,177**	$ 1,286
Actuarial (gains) losses on obligation	(1,919)	816
Losses (gains) on plan assets	1,369	(688)
Total remeasurement included in Other Comprehensive Income	**(550)**	128
Total benefit cost recognized in the Consolidated Statement of Operations and Other Comprehensive Income	**$ 627**	$ 1,414

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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

The distribution of assets by major asset class is as follows:

	December 31, 2018	December 31, 2017
Equities	48.6%	51.8%
Fixed income securities	40.9%	38.5%
Real estate	10.5%	9.7%

Significant assumptions:

	December 31, 2018	December 31, 2017
Discount rate - accrued benefit obligation	3.90%	3.40% - 3.50%
Assumed rate of salary escalation	2.80%	2.80% - 3.50%
Pension growth	2.00%	2.00% - 2.50%

Sensitivity Analysis:
The sensitivities of key assumptions used in measuring accrued benefit obligations at each Consolidated 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 MI-2017.

Assumptions and sensitivity to the recognized post-employment benefits liability balance at December 31, 2018

Assumption	+1%	-1%	+1%	-1%
Discount rate	-13.39%	16.97%	$(3,146)	$3,988
Salary growth	1.58%	-1.41%	351	(313)
Pension growth	14.80%	-12.13%	3,287	(2,694)
Life expectancy (1 year movement)	2.51%	-2.45%	589	(575)

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)

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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

15. Post-employment benefits - continued

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 (2017 - 16.0 years). The Corporation expects to make payments of $606,000 (2017 - $682,000) 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, 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
Impact of IFRS 15 (note 3(p)(ii))	-	(24,893)	-	-	(24,893)
Adjusted balance at January 1, 2018	71,000	-	18,470	1,739	91,209
Additions	-	-	78	-	78
Disposals	-	-	(2,080)	-	(2,080)
At December 31, 2018	**$ 71,000**	**$ -**	**$ 16,468**	**$ 1,739**	**$ 89,207**
Accumulated amortization:					
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
Impact of IFRS 15 (note 3(p)(ii))	-	(11,135)	-	-	(11,135)
Adjusted balance at January 1, 2018	6,020	-	4,072	1,380	11,472
Additions	991	-	332	43	1,366
Disposals	-	-	(1,422)	-	(1,422)
At December 31, 2018	**$ 7,011**	**$ -**	**$ 2,982**	**$ 1,423**	**$ 11,416**
Net book value:					
At December 31, 2017	$ 64,980	$ 13,758	$ 14,398	$ 359	$ 93,495
At December 31, 2018	$ 63,989	$ -	$ 13,486	$ 316	$ 77,791

During 2018, contributions from Yukon Government since 1998, with a net book value of $716,000 which relate to assets disposed of during the year have been recognized in other income for total amortization of contributions in aid of construction of $2,082,000. The sources of contributions received prior to 1998 were not recorded separately.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

17. Deferred revenue

	Customer Contributions	Decommissioning Fund	Total
At January 1, 2018	$ 9,546	$ 2,665	$ 12,211
Additions	1,304	48	1,352
Revenue recognized in Sales of Power (Note 18)	(1,669)	-	(1,669)
At December 31, 2018	$ 9,181	$ 2,713	**$ 11,894**

Customer contributions represent monies paid by customers for connection to the grid. The contributions are recognized into revenue when the performance obligation is satisfied. 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"). This amount will be recognized to revenue when uncertainty associated with its recognition is satisfied.

18. Sales of power

	2018	2017
Wholesale	$ 32,911	$ 31,516
Industrial	6,894	5,298
General service	5,359	4,924
Residential	2,400	2,204
Sentinel and street lights	108	104
Secondary sales	19	635
	$ 47,691	$ 44,681

19. Operations and maintenance expenses

	2018	2017
Fuel	$ 6,309	$ 2,911
Wages and benefits	6,234	6,242
Regulatory account expenses (Note 10 (c))	3,774	3,903
Contractors	2,706	3,024
Materials and consumables	1,400	1,335
Rent	1,332	492
Loss on asset disposal	1,177	-
Travel	480	352
Communication	75	70
	$ 23,487	$ 18,329

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

20. Administration expenses

	2018	2017
Wages and benefits	$ 6,493	$ 6,316
Insurance and taxes	1,819	1,828
Materials, consumables and general	1,752	1,285
External labour	1,580	1,231
Licences and fees	599	711
Travel	213	191
Board fees	155	84
	$ 12,611	$ 11,646

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:

	2018	2017
Revenues		
Contributions for Interim Electrical Rebate program	$ 3,547	$ 3,540
Contributions for bond interest expense	2,625	2,625
Contributions for Innovative Energy Renewable Initiatives	1,168	-
Contributions for feasibility studies for transmission facilities	-	565
Contributions for Next Generation Hydro project expenses	-	171

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

	2018	2017
Balances		
Long-term debt	$ 39,200	$ -
Accounts receivable	$ 1,277	$ 1,358
Accounts payable	$ 920	$ 551
Construction financing	$ -	$ 39,200

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

December 31, 2018 (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 26 individuals (2017 - 27 individuals). Key management personnel compensation is as follows:

Year ended December 31,	**2018**	2017
Short-term employee benefits	$ 1,684	$ 1,631
Post-employment benefits	159	163
	$ 1,843	$ 1,794

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, 2018 as the product or service had not been provided. The total commitments at year end are $3,832,000 (December 31, 2017 - $4,813,000).

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 mine connected to the grid in May 2019.

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 2017, the Yukon Supreme Court issued an award in favor of the contractor. The Utility successfully appealed the award in 2018. A re-trial is tentatively scheduled for September 2019. The matter is still before the courts. Legal costs are being expensed as incurred. The outcome of the court process is not determinable at this time and no estimate of settlement has been recognized in the consolidated financial statements.

23. Contingencies - continued

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, 2018 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, 2018, the Corporation's financial instruments included cash, accounts receivable, finance lease receivables, accounts payable and accrued liabilities, long-term debt and interest rate swaps. The fair value of cash, accounts receivable, finance lease receivables, and accounts payable and accrued liabilities 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.

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. 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.

December 31, 2018 (tabular amounts in thousands of Canadian dollars)

25. Risk management and financial instruments - continued

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, 2018, the Corporation had two interest rate swap agreements in place. The first agreement has a notional principal amount of $9.0 million (2017 - $9.3 million) and the agreement effectively changes the Corporation's interest rate exposure on this notional amount from a floating rate to a fixed rate of 2.69%. The second agreement has a notional principal amount of $23.4 million (2017 - $0) and the agreement effectively changes the Corporation's interest rate exposure on this notional amount from a floating rate to a fixed rate of 3.665%.

The fair value of the interest rate swap agreements on December 31, 2018 was a liability of $1,042,000 (2017 - liability of $56,000). The decrease in the fair value in 2018 of $986,000 (2017 – increase of $353,000) is recognized on the Consolidated Statement of Operations and Other Comprehensive Income as an unrealized loss. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest rate swap agreements fair value of $2,911,000 (2017 - $401,000).

The Corporation has access to $17.5 million in lines of credit. Effective August 25, 2018, the line of credit was increased temporarily to $26.0 million. The temporary increase expires August 24, 2019. 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 line of credit balance at year end was $2.4 million (2017 - $10.1 million). The Corporation has cash balances with the same financial institution with legal right of offset of $2.9 million (2017 - $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:

	2018	2017
Cash	$ 5,113	$ 2,704
Accounts receivable	8,133	8,520
Finance lease receivables	85	117
	$ 13,331	$ 11,341

December 31, 2018 (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, 2018 are $681,000 (2017 - $1,213,000) 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 $23.6 million (December 31, 2017 - $19.4 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, 2018:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	**Total**
Derivative related liability	-	$1,042	-	**$1,042**
Long-term debt	-	-	$195,823	**$195,823**

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**

December 31, 2018 (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 decommissioning fund 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:

	2018	2017
Long-term debt due within one year	$ 80,210	$ 5,248
Long-term debt	86,058	142,523
Total debt	**166,268**	147,771
Add decommissioning fund (note 17)	2,713	2,665
Total debt to include in the calculation	**$ 168,981**	$ 150,436
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	68,014	61,367
Total shareholder's equity	**121,614**	114,967
Total capitalization	**$ 290,595**	$ 265,403
Total debt to total capitalization	**58 %**	57 %

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

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, 2018 are also prepared.