

YUKON  
ENERGY



**YUKON ENERGY  
CORPORATION**  
P.O. Box 5920  
WHITEHORSE  
YUKON Y1A 5L6  
(867) 393-5300

File: 2700-05-05

June 30, 2009

Yukon Utilities Board  
P.O. Box 31728  
Whitehorse, Yukon  
Y1A 6L3

Attention: Wendy Shanks, Chair

**Re: 2008 Annual Filings – Yukon Energy Corporation – Audited Financial  
Statements**

Please find enclosed the audited financial statements for the year ended December 31, 2008 along with related 2008 information required by Sections 25 of the Public Utilities Act including:

1. Audited 2008 Financial Statements
2. Regulatory Schedules prepared based on audited 2008 Financial results:
  - a) Statement of utility income and rate of return;
  - b) Computation of net rate base;
  - c) Working capital calculation;
  - d) Reconciliation of utility income to net earnings;
  - e) Summary of capital assets;
  - f) Cost of capital calculation; and
  - g) List of Directors and Officers

Sincerely

David Morrison  
President & CEO

Enclosures

**Yukon Energy Corporation**

**Financial Statements**

**December 31, 2008**

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# Yukon Energy Corporation

## Financial Statements

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December 31, 2008

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### **Management's Responsibility for Financial Reporting**

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

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

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

A handwritten signature in black ink, appearing to read 'D Morrison'.

David Morrison,  
President and CEO

A handwritten signature in black ink, appearing to read 'Ed Mollard'.

Ed Mollard  
Chief Financial Officer

March 13, 2009

**Yukon Energy Corporation****Balance Sheet**

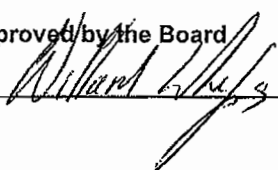
(in thousands of dollars)

As at December 31,	2008	2007
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 3,254	\$ 6,237
Accounts receivable (Note 5)	5,145	3,726
Materials and supplies	2,567	2,352
Prepaid expenses	278	186
	<b>11,244</b>	<b>12,501</b>
Customer contribution financing (Note 6)	14,991	-
Deferred uninsured losses (Note 7)	556	463
Diesel contingency fund (Note 8)	883	856
Property, plant and equipment (Note 9)	197,329	164,394
Deferred charges (Note 10)	13,451	9,128
	<b>\$ 238,454</b>	<b>\$ 187,342</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 11)	8,853	4,119
Current portion of long-term debt (Note 15)	4,721	3,416
	<b>13,574</b>	<b>7,535</b>
Faro mine dewatering deferral revenue (Note 12)	1,191	1,191
Long-term pension liability (Note 20)	801	741
Deferred revenue (Note 13)	7,356	7,626
Contributions in aid of construction (Note 14)	45,951	16,495
Regulatory provision for future removal and site restoration costs	5,168	5,241
Diesel contingency fund (Note 8)	883	856
Long-term debt (Note 15)	102,753	87,263
	<b>177,677</b>	<b>126,948</b>
<b>Shareholder's Equity</b>		
<b>Share capital</b>		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
<b>Retained earnings</b>	<b>21,777</b>	<b>21,394</b>
	<b>60,777</b>	<b>60,394</b>
	<b>\$ 238,454</b>	<b>\$ 187,342</b>

**Commitments and Contingencies (Notes 22 and 23)**

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

Approved by the Board

  
Chair  
Director

## Yukon Energy Corporation

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

For the year ended December 31,	2008	2007
<b>Revenue</b>		
Sales of power (Note 16)	\$ 28,518	\$ 28,077
Other	529	309
	<b>29,047</b>	<b>28,386</b>
<b>Operating expenses</b>		
Administration (Note 17)	7,751	7,399
Operations and maintenance (Note 18)	6,760	5,599
Amortization of property, plant and equipment	5,153	4,939
Amortization of deferred charges	937	1,108
	<b>20,601</b>	<b>19,045</b>
<b>Income from operations</b>	<b>8,446</b>	<b>9,341</b>
<b>Other income</b>		
Allowance for funds used during construction	774	138
Amortization of capital assistance	229	215
Interest income	179	259
Contribution from parent (Note 21)	3,000	-
	<b>4,182</b>	<b>612</b>
<b>Other expenses</b>		
Interest on long-term debt	5,294	4,946
Provision for uninsured losses (Note 7)	50	100
Settlement of lawsuit (Note 21)	3,000	-
	<b>8,344</b>	<b>5,046</b>
<b>Net income</b>	<b>4,284</b>	<b>4,907</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income</b>	<b>4,284</b>	<b>4,907</b>
<b>Retained earnings, beginning of year</b>	<b>21,394</b>	<b>20,738</b>
<b>Dividend</b>	<b>(3,901)</b>	<b>(4,251)</b>
<b>Retained earnings, end of year</b>	<b>\$ 21,777</b>	<b>\$ 21,394</b>

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

**Yukon Energy Corporation**  
**Statement of Cash Flows**  
(In thousands of dollars)

For the year ended December 31,	2008	2007
<b>Operating activities</b>		
Cash receipts from customers	\$ 28,637	\$ 28,886
Cash paid to employees and suppliers	(15,427)	(13,900)
Interest paid	(5,294)	(4,946)
Interest received	178	259
<b>Cash provided by operating activities</b>	<b>8,094</b>	<b>10,299</b>
<b>Financing activities</b>		
Repayment of long-term debt	(3,501)	(7,473)
Proceeds from long-term financing	16,081	4,251
Contributions in aid of construction	29,686	4,665
<b>Cash provided by financing activities</b>	<b>42,266</b>	<b>1,443</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(37,343)	(11,457)
Increase in long-term receivable	(16,000)	-
<b>Cash used in investment activities</b>	<b>(53,343)</b>	<b>(11,457)</b>
<b>Net (decrease) increase in cash</b>	<b>(2,983)</b>	<b>285</b>
<b>Cash, beginning of year</b>	<b>6,237</b>	<b>5,952</b>
<b>Cash end of year</b>	<b>\$ 3,254</b>	<b>\$ 6,237</b>

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

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# Yukon Energy Corporation

## Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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### 1. NATURE OF OPERATIONS

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

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

#### Rate Regulation

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

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

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

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

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

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

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. The Utility filed a rate application on October 6, 2008 for the 2008 and 2009 forecast years.



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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 1. NATURE OF OPERATIONS - continued

##### Water Regulation

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

##### Capital Structure

The Utility's policy is to maintain a capital structure of 60% debt and 40% equity at year end. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

#### 2. CHANGE IN ACCOUNTING POLICIES

##### Capital Disclosures

Effective January 1, 2008, the Utility adopted the new CICA Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate how an entity manages its capital structure (i.e. debt, equity), its objectives, policies and processes for managing its capital, quantitative data about what the Utility regards as capital and whether the Utility has complied with any capital requirements and, if it has not complied, the consequence of such non-compliance. The additional disclosure is presented in Note 25. As this section only addresses disclosure requirements, there is no impact on the Utility's operating results.

##### Financial Instruments

Effective January 1, 2008, the Utility adopted two new accounting standards: CICA Handbook Section 3862 *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. In December 2008, the CICA amended the accounting standards to allow rate-regulated enterprises that have not issued, and are not in the process of issuing, debt or equity securities that are, or will be, outstanding in a public market to continue applying CICA Section 3861 instead of Sections 3862 and 3863. The Utility qualifies for the exemption and has chosen to continue applying Section 3861.

##### Inventories

Effective January 1, 2008, the Utility adopted the new CICA Handbook Section 3031, *Inventories*, which is based on International Accounting Standards ("IAS") 2. The new section replaces the existing Section 3030, *Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". Due to the changes in the section the Utility will account for major spare parts, which were previously reported as materials and supplies, as property, plant and equipment. The adoption of this new standard did not have a significant impact on the Utility's financial statements.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### Financial Statement Presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 4. Consequently, the significant accounting policies have been classified accordingly in the notes below:

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## Yukon Energy Corporation

Notes to Financial Statements  
(tabular amounts in thousands of dollars)

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December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Rate regulated accounting policies

##### Property, plant and equipment

Property, plant and equipment include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital which was 7.61% for 2008 (2007 - 7.81%). Upon retirement or disposal, any gain or loss is charged to income in the current year for assets amortized on an individual basis, or charged to accumulated amortization for assets amortized on a pooled basis.

##### Faro Mine Dewatering Deferral Revenue

Faro mine dewatering deferral revenue represents amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate-setting process or through YUB orders.

##### Deferred uninsured losses

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

##### Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

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

Cost of feasibility studies are amortized on a straight-line basis over five years.

Cost of infrastructure planning are amortized on a straight-line basis over terms that mimic the length of time the benefit would be received. The longest term of amortization is ten years.

Regulatory hearing costs that are approved by the Yukon Utilities Board are amortized over three years. The remaining amounts in hearing costs at year end are waiting for an approval term by the Yukon Utilities Board.

Deferred customer service costs are being amortized over twelve years. These costs are awaiting YUB approval. If the YUB denies these expenditures in whole or in part, the Utility will be obligated to expense that portion of cost denied.

##### Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

##### Deferred revenue

Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income over its useful life which is the same rate as the replacement assets.

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Diesel contingency fund

The Utility maintains an asset and an offsetting liability on behalf of ratepayers. The fund is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

##### Generally Accepted Accounting Principles

###### Revenue recognition

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

###### Materials and supplies

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

###### Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

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

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

###### Asset retirement obligations

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

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

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## Yukon Energy Corporation

Notes to Financial Statements  
(tabular amounts in thousands of dollars)

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December 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Contributions in aid of construction

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

#### Deferred water licensing costs

Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

#### Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

#### Measurement uncertainty

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

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

#### Environmental Liabilities

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

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Future Accounting Changes

Effective January 1, 2009 the CICA has removed the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, which provides relief to entities subject to rate regulation from the requirement to apply the section to the recognition and measurement of assets and liabilities arising from rate regulation. Management is currently assessing the impact of the change on the Utility's financial statements which may be significant.

On February 13, 2008, the Canadian Accounting Standards Board of Canada confirmed the adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in place of Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011. The Utility is required to present its first set of published IFRS statements for the year ended December 31, 2011 with comparative information.

Although IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting standards and the Utility is currently assessing the impact of those differences.

To facilitate the conversion process, the Utility has appointed an external advisor and assembled a core project team. Project planning started with a high level diagnostic review of significant differences between IFRS and Canadian GAAP. Areas with significant differences that will impact the Utility include: Regulatory Accounting, Property, Plant & Equipment, Employee Benefits and the overall presentation of the financial statements. The overall impact of the change cannot be determined at this point.

Effective for years starting on or after October 1, 2008, the CICA has issued Section 3064 *Goodwill and Intangible Assets* which replaces Sections 3062 *Goodwill and Other Intangible Assets* and 3450 *Research and Development*. The new section is in alignment with International Financial Reporting Standards IAS 38 with respect to the definition and initial recognition criteria of intangible assets, including internally generated intangible assets. Section 3064 reinforces the distinction between costs that should be expensed and those that should be capitalised. The adoption of this new standard is not expected to have a material impact on the earnings or assets of the Utility.

#### 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

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

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

# Yukon Energy Corporation

## Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2008

### 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

In the absence of rate regulation the Utility's net income would have decreased by \$5,860,000 in 2008 (2007 - decreased by \$378,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2008	2007	Expected remaining recovery/settlement (years)	For 2008: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
<b>Regulatory assets:</b>				
Deferred charges (Note 10), net book value				
Feasibility studies and infrastructure planning	\$ 5,787	\$ 2,319	1 to 10	\$ (3,468)
Deferred customer service costs	764	-	12	(764)
Downsizing costs	-	24	0	24
Hearing costs	1,348	1,071	Indeterminate	(277)
Dam safety review	13	27	1	14
Diesel contingency fund (Note 8)	883	856	Indeterminate	(27)
	8,795	4,297		(4,498)
<b>Regulatory liabilities:</b>				
Faro mine dewatering deferral revenue (Note 12)	1,191	1,191	Indeterminate	-
Deferred revenue (Note 13)	7,356	7,626	28	(270)
Deferred uninsured losses (Note 7)	(556)	(463)	Indeterminate	(93)
Regulatory provision for future removal and site restoration costs	5,168	5,241	Indeterminate	(73)
Diesel contingency fund (Note 8)	883	856	Indeterminate	27
	14,042	14,451		\$ (409)
Net impact of assets and liabilities	\$ (5,247)	\$ (10,154)		\$ (4,907)
Impact of other items through Income statement				
AFUDC				(774)
Fuel Price Adjustment				(179)
<b>Total effect</b>				<b>\$ (5,860)</b>

### Regulatory assets

#### (a) Deferred charges

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

#### Feasibility studies and infrastructure planning

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over various terms as approved by the Yukon Utilities Board. In the absence of rate regulation, expenses in 2008 would have been \$3,468,000 higher. (2007 - \$680,000 lower expenses)

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

##### Deferred Customer Service Costs

The costs associated with negotiating terms of service with a new industrial customer. In the absence of rate regulation, expenses in 2008 would have been \$764,000 higher.

##### Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2008 would have been \$24,000 lower. (2007 - \$47,000 lower expenses)

##### Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005 and the Resource Plan proceedings that were held for the Carmacks-Stewart Transmission Project in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility and reimbursement of YUB and intervenor costs. YUB Order 2005-12 directed the Utility to defer and amortize the hearing costs over three years. YUB Order 2007-9 directed the Utility to record the Resource Plan Proceeding costs in a Hearing Reserve Account and in the next GRA to include a proposal on how to dispense with the Hearing Reserve Account. In the absence of rate regulation, expenses in 2008 would have been \$277,000 higher. (2007 - \$760,000 higher expenses)

##### Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2008 would have been \$14,000 lower. (2007 - \$22,000 lower expenses)

##### (b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as an asset and a liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's income and expenses in 2008 would have been higher by \$27,000 from interest earned on the DCF. (2007 - \$35,000 higher income and expenses)

##### Regulatory liabilities

##### (c) Faro mine dewatering deferral revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also approves the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2007-2 set the approved 2007 revenue shortfall at \$292,000.

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

##### (c) Faro mine dewatering deferral revenue - continued

In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. In 2008 there were no amounts approved by the YUB for deferral (2007 revenue would have been \$292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

##### (d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's net income in 2008 would have been lower by the amount of the amortization of \$270,000 (2007 - \$270,000 lower).

##### (e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the reserve for uninsured loss, and increase the annual provision from \$50,000 to \$100,000 for the years 2005 to 2007. After 2007 the provision was reduced to \$50,000. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2008 would have been higher by \$78,000 (2007 - \$37,000 lower). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

##### (f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the *Public Utilities Act*, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2008 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$73,000 (2007 expenses - \$158,000 lower). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

##### (g) Fuel price adjustment

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

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2008, fuel expenses were deferred and consequently lower by \$179,000 (2007 - \$72,000 lower).



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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is amortized over future periods as part of the total cost of the related asset, based on the expectation that amortization expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. In the absence of rate regulation, revenue would be \$774,000 lower (2007 - \$138,000 lower).

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

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

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

#### 5. ACCOUNTS RECEIVABLE

	2008	2007
Wholesale energy sales	\$ 2,773	\$ 2,853
Retail energy sales	1,179	842
Customer Contribution Financing (Note 6)	1,009	-
Other	184	31
	<u>\$ 5,145</u>	<u>\$ 3,726</u>

#### 6. CUSTOMER CONTRIBUTION FINANCING

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility has agreed to finance the cost of assets built to serve the customer. Of the total financed cost, \$8.881 million will be repaid with blended principal and interest payments over 7 years at 7.5% interest. The remainder of \$7.2 million is also financed at 7.5 % with interest only payments payable monthly for the first four years and the principal repaid with blended payments over the succeeding 3 years. At the direction of the Yukon Utilities Board, the collection risk on this instrument is borne by the Utility's parent. Accordingly, the parent has loaned cash in an amount equal to this receivable at substantially the same terms. The Utility has recorded this loan as long term debt (see Note 15) and, if the industrial customer defaults on their debt, the Utility is released from the obligation to re-pay the parent. The amount receivable in 2009 is \$1.009 million.

## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2008

#### 7. DEFERRED UNINSURED LOSSES

	2008	2007
Opening balance	\$ 463	\$ 500
Provision	(50)	(100)
Losses incurred		
Asset replacements	143	63
Closing balance	\$ 556	\$ 463

#### 8. DIESEL CONTINGENCY FUND

	2008	2007
Opening balance	\$ 856	\$ 821
Interest	27	35
Closing balance	\$ 883	\$ 856

Diesel Contingency Funds are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity of less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2008 was 3.43% (2007 - 4.63%). The fair market value of these investments is equal to the carrying amount.

#### 9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2008 Net book Value	2007 Net book Value
Generation	\$ 139,686	\$ 52,081	\$ 87,605	\$ 89,917
Transmission	83,783	13,028	70,755	42,470
Distribution	26,307	5,720	20,587	10,003
Buildings and other equipment	17,174	6,146	11,028	10,732
Transportation	2,861	964	1,897	1,808
Land and land rights	1,117	-	1,117	1,119
Construction-in-progress	4,340	-	4,340	8,345
	\$ 275,268	\$ 77,939	\$ 197,329	\$ 164,394

## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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#### 10. DEFERRED CHARGES

	Cost	Accumulated Amortization	2008 Net book Value	2007 Net book Value
Deferred water licensing costs	\$ 9,007	\$ 3,468	\$ 5,539	\$ 5,687
Feasibility studies and infrastructure planning	7,063	1,276	5,787	2,319
Hearing costs	2,330	982	1,348	1,071
Deferred customer service costs	769	5	764	-
Downsizing costs	334	334	-	24
Dam safety review	213	200	13	27
	<b>\$ 19,716</b>	<b>\$ 6,265</b>	<b>\$ 13,451</b>	<b>\$ 9,128</b>

#### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Trade payables	8,277	2,877
Employee compensation	414	368
Other	162	874
	<b>8,853</b>	<b>4,119</b>

#### 12. FARO MINE DEWATERING DEFERRAL REVENUE

	2008	2007
Faro Mine Dewatering Deferral revenue		
Opening balance	1,191	1,483
Applied to revenue shortfall	-	(292)
Closing balance	<b>\$ 1,191</b>	<b>\$ 1,191</b>

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 13. DEFERRED REVENUE

	2008	2007
Deferred gain on fire insurance proceeds - capital assets (net of accumulated amortization and adjustments of \$4,246,000 (2007 - \$3,976,000))	\$ 7,356	\$ 7,626
	<b>\$ 7,356</b>	<b>\$ 7,626</b>

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#### 14. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2008	2007
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 15,812	\$ 1,720	\$ 14,092	\$ 11,813
Contributions from customers since 1998	31,682	574	31,108	3,887
Pre-1998 contributions	1,739	988	751	795
	<b>\$ 49,233</b>	<b>\$ 3,282</b>	<b>\$ 45,951</b>	<b>\$ 16,495</b>

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

During 2008, the Utility received contributions of \$16 million from Minto Mine, \$10 million from Yukon Government and \$2.957 million from the parent company to fund the Carmacks Stewart Transmission Line.

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 15. LONG-TERM DEBT

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

	2008	2007
<b>Yukon Development Corporation</b>		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ 26,066	\$ 26,789
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	24,101	25,707
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	15,607	16,057
\$16,081,000 term note related to the Transmission Line Construction Financing, bearing interest at 7.50% repayable in variable monthly installments due December 2017	16,000	-
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	3,583
Unsecured advance bearing interests at 5.28%, due one year after demand	4,251	4,251
Unsecured advance bearing interest at 4.65%, due one year after demand	3,901	-
<b>TD Canada Trust</b>		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	7,164	7,804
<b>Carmacks Stewart First Nation Liability</b>		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	313	-
	107,474	90,679
Less current portion	4,721	3,416
	\$ 102,753	\$ 87,263

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## Yukon Energy Corporation

### Notes to Financial Statements

(tabular amounts in thousands of dollars)

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December 31, 2008

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#### 15. LONG-TERM DEBT - continued

##### **\$40,000,000 Flexible term note**

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2008 is 4.92% (2007 - 4.05%).

##### **Mayo to Dawson Transmission Line Financing**

The Utility obtained financing from its parent in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2008, benefits exceeded costs, which resulted in \$1,052,000 in interest paid to Yukon Development Corporation. (In 2007, benefits exceeded costs, which resulted in \$1,081,000 in interest paid to Yukon Development Corporation)

##### **Unsecured Advances**

The Utility declared a dividend to the parent in the amount of \$3,901,000 (2007 - \$4,251,000) and this was loaned back to the Utility at an interest rate of 4.65% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

##### **Transmission Line Construction Financing**

The Utility obtained financing from its parent in the amount of \$16 million for an industrial customer's Capital Cost Contribution for the transmission line from Carmacks to Minto Landing and Spur line to the customer. This amount represents the initial estimate of costs. The financing was obtained effective November 22, 2008, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built. The Utility is obliged to repay the loan when payments are received from the customer under the Power Purchase Agreement. The parent company takes all the risk involved in this debt.

##### **Long -term debt repayment**

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

2009	4,721
2010	4,855
2011	4,999
2012	5,286
2013	6,956
Thereafter	80,657

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\$ 107,474

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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**15. LONG-TERM DEBT - continued**

**Fair value**

Fair value at December 31, 2008 of \$112 million (2007 - \$101 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

**16. SALES OF POWER**

	2008	2007
Wholesale	\$ 22,999	\$ 22,460
General Service	2,804	2,731
Residential	1,523	1,509
Secondary Sales	777	1,000
Other	86	377
Industrial	329	-
	<b>\$ 28,518</b>	<b>\$ 28,077</b>

**17. ADMINISTRATION EXPENSES**

	2008	2007
Wages and benefits	\$ 3,554	\$ 3,202
General office	1,312	1,152
Insurance and taxes	1,016	1,069
Training, recruitment and development	604	459
Information systems	456	530
Board of Directors	256	167
Environmental	130	173
Regulatory loss	196	481
Intercompany services	162	146
Material management and contracting	65	20
	<b>\$ 7,751</b>	<b>\$ 7,399</b>

**18. OPERATIONS AND MAINTENANCE EXPENSES**

	2008	2007
Wages and benefits	\$ 3,735	\$ 3,246
Maintenance		
- hydro, diesel and wind	823	677
- lines and substations	869	567
- building and vehicle	882	730
Fuel	291	218
Water level measurement	160	161
	<b>\$ 6,760</b>	<b>\$ 5,599</b>

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 19. RELATED PARTY TRANSACTIONS

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

Revenue from related parties is included in Other revenue on the statement of operations. Rate Stabilization Fund revenues are received from YDC (the "parent company") in accordance with terms established by the Government of Yukon (YG) which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are included in the Sales of power on the statement of operations.

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

	2008	2007
<b>Revenue</b>		
Sales of service to YDC	\$ 161	\$ 157
Program cost reimbursement from YG	92	82
Rate Stabilization Fund subsidy received from YDC	\$ 206	\$ 310
<b>Operating expenses</b>		
Payment of interest on long-term & short-term debt to YDC	\$ 4,711	\$ 4,311
Payment for Financial information system usage to YDC	177	177
<b>Other income</b>		
Contribution from parent for settlement of lawsuit	\$ 3,000	-
<b>Other receipts</b>		
Capital Contributions from YDC for Carmacks Stewart Transmission Line	\$ 2,957	\$ 4,000
Capital Contributions from YG for Carmacks Stewart Transmission Line	10,000	-
Capital Contributions from YG for Aishihik Hydro third turbine	750	-
<b>Other payments</b>		
Payment of dividend to YDC	\$ 3,901	\$ 4,251
Payment on contribution agreements to YDC	-	25

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 19. RELATED PARTY TRANSACTIONS - continued

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

	2008	2007
Direct parent company		
Accounts receivable	\$ 245	\$ 76
Accounts payable	\$ 338	\$ 74
Current portion of long-term debt	\$ 4,003	\$ 2,776
Long-term debt	\$ 95,820	\$ 80,099
Government of Yukon		
Accounts receivable	\$ 92	\$ 82

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These balances are non-interest bearing and payable on demand except for long-term debt (Note 15).

#### 20. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period

Annual cost of living increases to a maximum of 3.0% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of the year's maximum pensionable earnings to a maximum of \$2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2007 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2010. The pension costs and obligations were based on the data used in the January 1, 2007 funding valuation and have been projected to December 31, 2008 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2008. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2008	December 31, 2007
Equities	45.1%	51.0%
Fixed Income Securities	45.0%	38.2%
Real Estate	9.9%	10.8%

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 20. PENSION COSTS AND OBLIGATIONS - continued

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

	2008	2007
Discount rate-accrued benefit obligation	6.25%	5.50%
Discount rate-benefit costs	5.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	12 years
Benefit obligation determined by actuarial valuation	\$ 9,583	\$ 10,010
Fair value of plan assets	6,589	7,500
Plan deficit	\$ 2,994	\$ 2,510
Unrecognised amount:		
- transitional asset	152	169
- net actuarial losses	(2,213)	(1,875)
Accrued benefit liability	\$ 933	\$ 804
Current portion of accrued benefit liability	\$ 132	\$ 63
Long-term portion of accrued benefit liability	801	741
Accrued benefit liability	\$ 933	\$ 804
Pension expense	\$ 523	\$ 493
Employer contributions	\$ 394	\$ 308
Employee contributions	\$ 123	\$ 113
Benefits paid	\$ 154	\$ 117

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$132,000 (2007 - \$63,000) is included in accounts payable and accrued liabilities on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2008, these were \$220,000 (2007 - \$184,000).

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$614,000 (2007 - \$492,000).

As at December 31, 2008, the Utility's defined benefit pension plan had 36 members (2007 - 38), and the RRSP had 45 members (2007 - 41).

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 21. LEGAL SETTLEMENT

During the year, the Utility settled an outstanding dispute with the general contractor on the project to construct a transmission line between the Mayo hydro-electricity generation station and the community of Dawson. The settlement agreement required that, among other things, the Utility make a payment to the contractor of \$3 million for work performed, plus \$264 thousand for funds held on behalf of the contractor resulting from an insurance claim during construction. With this payment, the Utility is free of any future liability resulting from this dispute. The parent paid these funds on behalf of the Utility.

#### 22. COMMITMENTS

##### (a) Financial Information System Lease

The Utility leases a financial information system from the parent. Minimum lease payments for the remaining year is as follows:

2009	147
Total	\$ 147

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##### (b) Aishihik Water Licence

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

- a) annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- b) Heritage Mitigation Plan. The Utility did not incur expenditures in 2008 on heritage projects and the amount to be expended in the future has not yet been determined; and
- c) annual fish monitoring programs.

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

##### (c) Diesel Generator Purchase

As part of the Power Purchase Agreement (PPA) with Minto Explorations Limited (MEL), the Utility agreed upon commencement of service to the mine and subject to other conditions to pay MEL \$2,240,000 for the assignment of four leased diesel generators with a combined continuous rating of 6.4 MW. As at December 31 2008, all conditions had not been met and it cannot be estimated at this time when all conditions will be met.

##### d) Purchase Orders

The Utility has entered into contracts to purchase products or services totaling \$270,000 for which the liability has not been incurred as at December 31 2008 as the product or service had not been provided.

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 23. ENVIRONMENTAL LIABILITIES

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

The Utility has conducted environmental assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation.

Therefore, as at December 31, 2008 no environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

#### 24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2008, the Utility's financial instruments included cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities and long term debt. The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term receivable related to the Transmission Line Construction Financing is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term receivable as at December 31, 2008 approximates its carrying value given that the loan was entered into with the industrial customer on November 22, 2008.

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

The Utility also has access to a \$10 million line of credit. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

##### **Interest rate risk**

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates.

##### **Credit risk**

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

##### **Liquidity risk**

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

The Utility does not engage in hedging transactions.

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## Yukon Energy Corporation

### Notes to Financial Statements (tabular amounts in thousands of dollars)

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December 31, 2008

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#### 25. CAPITAL MANAGEMENT

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

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

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

The long-term debt with the parent company of \$16 million that relates to the Transmission Line Construction Financing is not included in this calculation. This long-term debt is linked with the long-term receivable from the industrial customer. The Utility bears no risk in holding this debt so the amount was removed from this calculation.

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

(thousands of dollars)	2008	2007
Long-term debt due within one year	4,721	3,416
Long-term debt	102,753	87,263
<b>Total Debt</b>	<b>107,474</b>	<b>90,679</b>
Less debt related to the Transmission Line Construction Financing	16,000	-
<b>Total debt to include in the calculation</b>	<b>91,474</b>	<b>90,679</b>
Share capital	39,000	39,000
Retained earnings	21,777	21,394
<b>Total equity</b>	<b>60,777</b>	<b>60,394</b>
<b>Total capitalization</b>	<b>152,251</b>	<b>151,073</b>
<b>Total debt to total capitalization</b>	<b>60 %</b>	<b>60 %</b>

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

#### 26. COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform with the current year's presentation.

**YUKON ENERGY CORPORATION**  
**UTILITY INCOME AND RATE OF RETURN**  
**For The Year Ended December 31**  
**(\$000s)**

<b>Utility Revenue</b>	<b>2008 Actuals</b>
Utility Electric Sales	28,518
Transfer from De-watering Account <sup>1</sup>	-
Other Revenue	272
<b>Total</b>	<b>28,790</b>
<hr/>	
<b>Utility Expense</b>	
Labour	7,290
Non-Labour	
Operations and Maintenance	2,827
Administration	2,858
Insurance (excluding auto)	748
Donations	86
Fuel	257
Purchased Power	41
<b>Total Operating and Maintenance Costs</b>	<b>14,107</b>
Depreciation	
Fixed Asset Depreciation	5,596
Amortization of Contribution for Extensions	(431)
Amortization of Fire Insurance Gain	(270)
<b>Total Expenses</b>	<b>20,257</b>
Less: Donations	86
Disallowed Depreciation	4
<b>Total</b>	<b>20,167</b>
<b>Utility (Regulatory) Income</b>	<b>8,623</b>
<hr/>	
<b>Net Rate Base</b>	<b>141,249</b>
<b>Rate Of Return on Capital</b>	<b>6.105%</b>
<i>Rate of Return on Equity</i>	6.685%
<i>Cost of Debt</i>	5.718%

1 - Board Order 2005-12 provided for 3 years of withdrawals from the "dewatering" account (2005, 2006, 2007) but at that time provided no further approvals related to 2008 or later.

**YUKON ENERGY CORPORATION**  
**COMPUTATION OF NET RATE BASE**  
**For The Year Ended December 31**  
**(\$000s)**

	<b>2008</b>
	<b>Actuals</b>
Property, Plant and Equipment	275,183
Less: Work in progress	9,387
Accumulated Depreciation	77,939
Reserve for Future Removal and Site Restoration	5,168
Deferred Fire Gain	7,356
Customer Contributions (excluding for WIP)	45,077
Net PPE in ratebase	130,256
Add: Deferred Study and Relicensing Costs	12,103
Deferred Downsizing Costs	(0)
Accumulated Disallowed Depreciation	74
Less: Disallowed Assets	200
Reserve for Injuries and Damages	(541)
Regulatory Liabilities <sup>1</sup>	1,191
Net balance at year end	141,583
Add: Previous Year's Balance	136,509
Total	278,091
Mid-year balance	139,046
Add: Allowance for Working Capital	3,371
Mid-Year Rate Case Expense	1,209
Adjust for CSTP	(2,377)
Net Rate Base	141,249

1 - Regulatory Liabilities consists of deferred dewatering revenues

**YUKON ENERGY CORPORATION**  
**WORKING CAPITAL CALCULATION**  
**For The Year Ended December 31**  
**(\$000s)**

<b>Working Capital</b>	<b>2008 Actuals</b>
Operation and Maintenance	14,107
Add: Other Taxes	268
Less: Donations and Disallowed expenses	86
Allowable Operating Expense	14,289
Allowance: Operating Expense (27/365 * Allowable Operating Expense in 2007)	1,057
Three Year Average Inventory	2,348
GST Impact	(34)
<b>Total Working Capital</b>	<b>3,371</b>



**YUKON ENERGY CORPORATION**  
**RECONCILIATION OF UTILITY INCOME TO NET EARNINGS**  
**For The Year Ended December 31**  
**(\$000s)**

	<b>2008</b>
	<b>Actuals</b>
Utility Income	8,623
Add Non Utility Income:	
Allowance for Funds Used During Construction	774
<b>Sub-Total</b>	<b>9,397</b>
Less Non Utility Expenses:	
Long Term Interest	5,193
Other Interest	(78)
Donations	86
Disallowed Expenses <sup>1</sup>	195
Disallowed Depreciation	4
<b>Net Earnings</b>	<b>3,997</b>

1 - Disallowed expenses relate to claims and deficiencies arising from the Mayo-Dawson project per Order 2005-12

**YUKON ENERGY CORPORATION**  
**SUMMARY OF CAPITAL ASSETS**  
**For The Year Ended December 31**  
**(\$000s)**

<b>Capital Assets</b>	<b>2008 Actuals</b>
Land	1,117
Hydroelectric and Diesel Plants	139,601
Transmission	83,783
Distribution	26,307
Buildings, Office and General Equipment	17,174
Transportation	2,861
Construction Work-in-Progress	4,340
Cost	275,183
Less: Accumulated Depreciation	77,939
Net Book Value	197,244
Less: Contribution for Extensions	45,077
Net Capital Assets	152,167

**YUKON ENERGY CORPORATION  
COST OF CAPITAL CALCULATION  
For The Year Ended December 31  
(%)**

<b>2008 Actuals</b>	<b>Capital Ratio</b>	<b>Cost</b>	<b>Return Component</b>
Long Term Debt	60.0	5.718	3.431
Common Equity	40.0	6.685	2.673
	100.00		6.105

# **YUKON ENERGY CORPORATION**

## **DIRECTORS AND OFFICERS**

**DECEMBER 31, 2008**

### **DIRECTORS**

**Willard Phelps, Chair**  
Whitehorse, Yukon

**Martin Allen**  
Whitehorse, Yukon

**Greg Hakonson**  
Dawson City, Yukon

**Paul Birckel**  
Whitehorse, Yukon

**Barb Joe**  
Haines Junction, Yukon

**Paul Hunter**  
Whitehorse, Yukon

**Patrick James**  
Carcross, Yukon

### **OFFICERS**

**David Morrison**  
President & Chief Executive Officer

**Ed Mollard**  
Chief Financial Officer

**Shelley Dixon**  
Corporate Secretary