

YUKON
ENERGY



**YUKON ENERGY
CORPORATION**

P.O. Box 5920
WHITEHORSE
YUKON Y1A 6S7
(867) 393-5300

File: 2700-05-05

June 30, 2010

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

Attention: Bruce McLennan, Chair

**Re: 2009 Annual Filings – Yukon Energy Corporation – Audited Financial
Statements**

Please find enclosed the audited financial statements for the year ended December 31, 2009 along with related 2009 information required by Sections 25 of the Public Utilities Act including:

1. Audited 2009 Financial Statements
2. Regulatory Schedules prepared based on audited 2009 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 or capital assets;
 - f) Cost of capital calculation; and
 - g) List of Directors and Officers

Sincerely

A handwritten signature in black ink, appearing to read 'D. Morrison', written over a horizontal line.

David Morrison
President & CEO

Enclosures

Yukon Energy Corporation
Financial Statements
December 31, 2009

Yukon Energy Corporation

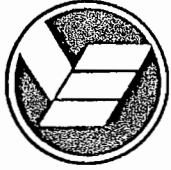
Financial Statements

December 31, 2009

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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', written in a cursive style.

David Morrison,
President and CEO

A handwritten signature in black ink, appearing to read 'E Mollard', written in a cursive style.

Ed Mollard
Chief Financial Officer

March 12, 2010



AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2009 and the statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
March 12, 2010

Yukon Energy Corporation

Balance Sheet

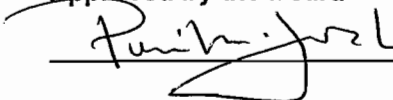
(in thousands of dollars)

As at December 31,	2009	2008
Assets		
Current		
Cash	\$ 10,731	\$ 3,254
Accounts receivable (Note 4)	9,710	5,145
Materials and supplies	2,715	2,567
Prepaid expenses	394	278
	23,550	11,244
Customer contribution financing (Note 5)	17,424	14,991
Deferred uninsured losses (Note 6)	111	556
Diesel contingency fund (Note 7)	887	883
Property, plant and equipment (Note 8)	212,918	200,173
Deferred charges (Note 9)	13,451	10,607
	\$ 268,341	\$ 238,454
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 10)	\$ 6,616	\$ 8,853
Construction Financing (Note 11)	25,000	-
Current portion of long-term debt (Note 14)	3,783	4,721
	35,399	13,574
Faro mine dewatering deferral revenue (Note 12)	397	1,191
Long-term pension liability (Note 19)	1,036	801
Contributions in aid of construction (Note 13)	59,316	53,307
Regulatory provision for future removal and site restoration costs	5,008	5,168
Diesel contingency fund (Note 7)	887	883
Long-term debt (Note 14)	105,355	102,753
	207,398	177,677
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	21,943	21,777
	60,943	60,777
	\$ 268,341	\$ 238,454

Commitments and Contingencies (Notes 20 and 21)

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,	2009	2008
Revenue		
Sales of power (Note 15)	\$ 31,547	\$ 28,518
Other	866	529
	32,413	29,047
Operating expenses		
Administration (Note 16)	8,016	7,751
Operations and maintenance (Note 17)	7,597	6,760
Amortization of property, plant and equipment	5,427	5,153
Amortization of deferred charges	2,135	937
	23,175	20,601
Income from operations	9,238	8,446
Other income		
Allowance for funds used during construction	392	774
Amortization of capital assistance	378	229
Interest income	1,165	179
Contribution from parent	-	3,000
	1,935	4,182
Other expenses		
Interest on borrowings	6,894	5,294
Provision for uninsured losses (Note 6)	150	50
Settlement of lawsuit	-	3,000
	7,044	8,344
Net income	4,129	4,284
Other comprehensive income	-	-
Comprehensive income	4,129	4,284
Retained earnings, beginning of year	21,777	21,394
Dividend	(3,963)	(3,901)
Retained earnings, end of year	\$ 21,943	\$ 21,777

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,	2009	2008
Operating activities		
Cash receipts from customers	\$ 31,958	\$ 28,637
Cash paid to employees and suppliers	(18,378)	(10,167)
Interest paid	(6,894)	(5,294)
Interest received	1,543	178
Cash provided by operating activities	8,229	13,354
Financing activities		
Repayment of long-term debt	(4,532)	(3,501)
Proceeds from short-term financing	25,000	-
Proceeds from long-term financing	-	16,081
Contributions in aid of construction	1,552	13,686
Cash provided by financing activities	22,020	26,266
Investing activities		
Additions to property, plant and equipment	(18,283)	(40,187)
Additions to deferred charges	(4,984)	(2,416)
Payments from long-term receivable	495	-
Cash used in investment activities	(22,772)	(42,603)
Net increase (decrease) in cash	7,477	(2,983)
Cash, beginning of year	3,254	6,237
Cash end of year	\$ 10,731	\$ 3,254

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

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 (YG). 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. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility 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 borrowing costs related to borrowing that portion of the rate base which is financed with debt plus the costs to provide a reasonable rate of return on that portion of the rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to the 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 filed on October 6, 2008 for the 2008 and 2009 forecast years. The YUB released Order 2009-8 on September 8, 2009. This order gave the Utility direction on certain accounts for the 2008 and 2009 year. As the 2008 year was already completed the financial impact of the order related to the 2008 year was accounted for through the 2009 year. The order resulted in a decrease of \$404,000 of net income in the 2009 year.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

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. 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 3. Consequently, the significant accounting policies have been classified accordingly in the notes below:

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 2009 (2008 - 7.61%). 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 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 and infrastructure planning which did not result in a capital project are amortized over terms ranging between five and ten years.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. The periods of amortization range from 2 to 45 years.

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 insurance proceeds

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

Diesel contingency fund

The Utility maintains an asset and an offsetting liability on behalf of ratepayers. The fund is used to reimburse 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, other than the AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, a proportionate share of directly attributable administration overhead, and 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	30 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Asset retirement obligations

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

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

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. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the water license.

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, amortization of past service benefits and plan enhancements, and actuarial gains and losses. Unrecognized gains and losses are amortized 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, employee pension obligations and regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement uncertainty - continued

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 3.

Environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Utility reviews its estimates of future environmental liabilities on an ongoing basis as described in Note 21.

ACCOUNTING CHANGES

Rate regulation

Effective January 1, 2009, the Canadian Institute of Chartered Accountants (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. Canadian GAAP permits an entity to consult sources other than primary sources of GAAP to assist in selecting accounting policies. In particular, accounting standards published with the authority of the US Financial Accounting Standards Board (FASB). The Utility has consulted FASB and, more specifically, section SFAS 71 in regards to rate regulated accounting and the Utility meets the criteria set out by this section. The Utility will be following SFAS 71 for recording rate regulated assets and liabilities. The CICA continues to give direction on how to disclose rate regulated accounting and the Utility follows this direction. The adoption of this standard did not have an impact on the Utility's financial statements since the recognition standards under SFAS 71 are similar to previous Canadian GAAP.

Goodwill and intangible assets

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, International Accounting Standard 38 - Intangible Assets (IFRS 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 capitalized. As a result of adopting Section 3064, the Utility classified \$5,222,000 of deferred water licencing costs as an intangible.

Future Accounting Changes

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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Future Accounting Changes

As a first-time adopter of IFRS, the Utility is required to apply IFRS 1 "First Time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Utility is currently evaluating. The more significant exemptions include: recognizing through opening retained earnings all cumulative actuarial gains and losses on employee benefit plans, electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances and the opportunity to apply decommissioning liabilities prospectively.

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. The second phase of the plan is the detailed analysis and design. This phase involves the detailed assessment, from an accounting, reporting and business perspective of the changes that will be caused by the conversion to IFRS. While all the effects of IFRS have not been fully determined, the Utility has identified a number of key areas where it is likely to be impacted by changes in accounting policy. Areas with significant differences that will impact the Utility include: Regulatory Accounting, Property, Plant & Equipment, Employee Benefits, impairment of assets and the overall presentation of the financial statements.

3. 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 on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision.

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

In the absence of rate regulation the Utility's net income would have decreased by \$4,199,000 in 2009 (2008 - decreased by \$3,016,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2009	2008	Expected remaining recovery/settlement (years)	For 2009: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 9), net book value				
Feasibility studies and infrastructure planning	\$ 6,455	\$ 2,943	5 to 10	\$ (3,512)
Deferred customer service costs	700	764	11	64
Hearing costs	1,074	1,348	2 to 45	274
Dam safety review	-	13	0	13
Deferred uninsured losses (Note 6)	111	556	Indeterminate	32
Diesel contingency fund (Note 7)	887	883	Indeterminate	(4)
	9,227	6,507		(3,133)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 12)	397	1,191	Indeterminate	(381)
Deferred insurance proceeds (Note 13)	7,086	7,356	26	(270)
Regulatory provision for future removal and site restoration costs	5,008	5,168	Indeterminate	(160)
Diesel contingency fund (Note 7)	887	883	Indeterminate	4
	13,378	14,598		\$ (807)
Net impact of assets and liabilities	\$ (4,151)	\$ (8,091)		\$ (3,940)
Impact of other items through Income statement				(392)
AFUDC				133
Fuel Price Adjustment				
Total effect				\$ (4,199)

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 Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. These values are also included in the feasibility accounts. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2009 would have been \$3,512,000 higher. (2008 - \$624,000 higher expenses)

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 2009 would have been \$64,000 lower. (2008 - \$764,000 higher expenses)

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2009 and the Resource Plan proceedings that were held in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility and reimbursement of YUB and intervenor costs. YUB Order 2009-8 directed the Utility to defer and amortize the hearing costs over two years and the Resource Plan Proceeding costs over ten years. In the absence of rate regulation, expenses in 2009 would have been \$274,000 lower. (2008 - \$277,000 higher expenses)

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB Order 2009-8. In the absence of rate regulation, expenses in 2009 would have been \$13,000 lower. (2008 - \$14,000 lower expenses)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(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. 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 fund 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 2009 would have been higher by \$4,000 from interest earned on the DCF. (2008 - \$27,000 higher income and expenses)

(c) 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 owed as a result of uninsured losses, the Utility was directed by YUB Order 2009-8 to transfer \$413,000 of the Faro mine dewatering deferral revenue account to the Deferred uninsured losses account. In addition the YUB approved a provision of \$150,000 relating to 2008 and 2009 and an annual provision of \$100,000 for every year thereafter. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2009 would have been lower by \$32,000 (2008 - \$93,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

Regulatory liabilities

(d) 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 revenue account. YUB Order 2009-8 set the approved 2008 and 2009 revenue shortfall at \$381,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2009 would have been \$381,000 lower. YUB Order 2009-8 also approved the Utility to offset \$413,000 from this account to the Deferred uninsured losses account which did not have an effect on the income statement.

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.

(e) Deferred insurance proceeds

The deferred insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's net income in 2009 would have been lower by the amount of the amortization of \$270,000 (2008 - \$270,000 lower).

Yukon Energy Corporation

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December 31, 2009

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(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 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 2009 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$160,000 (2008 expenses - \$73,000 higher).

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

(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 2009, fuel expenses were deferred and consequently lower by \$133,000 (2008 fuel expense higher by \$179,000).

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 \$392,000 lower (2008 - \$774,000 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Other items affected by rate regulation - continued

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.

4. ACCOUNTS RECEIVABLE

	2009	2008
Green Infrastructure Funding (Note 13)	\$ 3,200	\$ -
Wholesale energy sales	2,761	2,773
Retail energy sales	1,537	1,179
Customer Contribution Financing (Note 5)	-	1,009
Other	2,212	184
	\$ 9,710	\$ 5,145

5. CUSTOMER CONTRIBUTION FINANCING

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility has agreed to finance the cost of transmission assets built to serve the customer. Initial financing started November 22, 2008, the date the transmission line came into service. The financing is structured in two parts: a \$7.2 million contribution towards the cost of the main line expansion and \$10.8 million contribution for the cost of the 27 km spur line to the mine for a total of \$18 million. The customer is obligated to make interest only payments on the outstanding debt until 2012. From 2012 to 2017, the customer is obligated to make blended principal and interest payments such that the debt is extinguished by November 2017. This repayment schedule is subject to verification of mine life based on assessment of available reserves. At the direction of the YUB, the collection risk on this instrument is borne by YDC. Accordingly, YDC 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 14) and, if the industrial customer defaults on their debt, the Utility is released from the obligation to repay YDC.

6. DEFERRED UNINSURED LOSSES

	2009	2008
Opening balance	\$ 556	\$ 463
Provision	(150)	(50)
Transfer from Regulatory liabilities (Note 12)	(413)	-
Losses incurred		
Asset replacements	118	143
Closing balance	\$ 111	\$ 556

YUB Order 2009-8 directed that \$413,000 be transferred from the Faro mine dewatering revenue account to the Deferred uninsured losses account. This same order directed the Utility to charge \$100,000 to this provision starting in 2008. As the order was issued after the 2008 accounts were closed, the increase in the provision for both years was recognized in income in the 2009 year.

Yukon Energy Corporation

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December 31, 2009

7. DIESEL CONTINGENCY FUND

	2009	2008
Opening balance	\$ 883	\$ 856
Interest	4	27
Closing balance	\$ 887	\$ 883

The annual return on investment for 2009 was 0.45% (2008 - 3.43%). The fair market value of these investments is equal to the carrying amount due to the short term maturity of the investments.

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2009 Net book Value	2008 Net book Value
Generation	\$ 142,233	\$ 54,554	\$ 87,679	\$ 87,605
Transmission	84,426	14,759	69,667	70,755
Distribution	26,982	7,028	19,954	20,587
Buildings and other equipment	18,238	6,855	11,383	11,028
Transportation	3,369	1,148	2,221	1,897
Land and land rights	1,116	-	1,116	1,117
Construction-in-progress	20,898	-	20,898	7,184
	\$ 297,262	\$ 84,344	\$ 212,918	\$ 200,173

9. DEFERRED CHARGES

	Cost	Accumulated Amortization	2009 Net book Value	2008 Net book Value
Deferred water licensing costs	\$ 9,195	\$ 3,973	\$ 5,222	\$ 5,539
Feasibility studies and infrastructure planning	8,274	1,819	6,455	2,943
Hearing costs	3,065	1,991	1,074	1,348
Deferred customer service costs	769	69	700	764
Dam safety review	213	213	-	13
	\$ 21,516	\$ 8,065	\$ 13,451	\$ 10,607

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Trade payables	\$ 5,945	\$ 8,277
Employee compensation	281	414
Other	390	162
	\$ 6,616	\$ 8,853

Yukon Energy Corporation

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December 31, 2009

11. CONSTRUCTION FINANCING

	2009	2008
Financing	\$ 25,000	\$ -
	\$ 25,000	\$ -

In December 2009 the Utility received interim funding from the Yukon Government to assist with development of the Legacy Project for Stage 2 of the Carmacks-Stewart Transmission Line and the Mayo Hydro Enhancement Project. This funding is for an initial term of six months with an option to extend for an addition three months. Interest on this funding is based on the Bankers Acceptance rate plus 70 basis points. Interest is payable at the maturity of each term.

12. FARO MINE DEWATERING DEFERRAL REVENUE

	2009	2008
Faro mine dewatering deferral revenue account:		
Opening balance	\$ 1,191	\$ 1,191
Applied to revenue shortfall per YUB Order 2009-10	(381)	-
Offset to Deferred uninsured losses account per YUB Order 2009-8 (Note 6)	(413)	-
Closing balance	\$ 397	\$ 1,191

13. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2009	2008
	Gross	Accumulated Amortization	Net	Net
Contributions from Canada (Note 4)	\$ 3,200	\$ -	\$ 3,200	\$ -
Capital assistance from parent since 1998	15,812	2,098	13,714	14,092
Contributions from customers since 1998	36,657	2,049	34,608	31,108
Pre-1998 contributions	1,739	1,031	708	751
Deferred insurance proceeds	11,602	4,516	7,086	7,356
	\$ 69,010	\$ 9,694	\$ 59,316	\$ 53,307

The Utility has entered into a contribution agreement with the Government of Canada for Green Infrastructure Funding for the Carmacks to Stewart Transmission Line and the Mayo B Hydro Enhancement projects. The Utility is entitled to reimbursement of 50% of eligible costs to a maximum of \$71 million during the period May 2009 to March 2012 subject to meeting structured reporting requirements.

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

Yukon Energy Corporation

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14. LONG-TERM DEBT

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

	2009	2008
Yukon Development Corporation		
\$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	\$ 25,111	\$ 26,066
\$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.	22,494	24,101
\$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.	15,157	15,607
\$18,000,000 term note related to the Transmission Line Construction Financing, bearing interest at 6.50% repayable in variable monthly installments due December 2017	17,424	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 interest 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	3,901
Unsecured advance bearing interest at 5.28%, due one year after demand	3,963	-
TD Canada Trust		
\$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.	6,472	7,164
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	294	313
	109,138	107,474
Less current portion	3,783	4,721
	\$ 105,355	\$ 102,753

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

14. 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 2009 is 6.94% (2008 - 4.92%).

Mayo to Dawson Transmission Line Financing

The Utility obtained financing from YDC 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, YDC will pay the Utility the difference on or before March 31 of the next calendar year.

In 2009, benefits exceeded costs, which resulted in \$1,022,00 in interest paid to YDC. (In 2008, benefits exceeded costs, which resulted in \$1,052,000 in interest paid to YDC).

Unsecured Advances

The Utility declared a dividend to YDC in the amount of \$3,963,000 (2008 - \$3,901,000) and this was loaned back to the Utility at an interest rate of 5.28% 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 YDC in the amount of \$18 million for an industrial customer's Capital Cost Contribution for the transmission line from Carmacks to Minto Landing and Spur line to the customer. Financing of \$16 million was obtained effective November 22, 2008, the date the transmission line came into service and an additional \$1.9 million was obtained in 2009 after final projects costs were known. 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. YDC assumes all the risk involved in this debt.

Long -term debt repayment

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

2010	3,809
2011	3,868
2012	4,181
2013	7,071
2014	7,352
Thereafter	82,857

\$ 109,138

Yukon Energy Corporation

Notes to Financial Statements

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December 31, 2009

14. LONG-TERM DEBT - continued

Fair value

Fair value at December 31, 2009 of \$118 million (2008 - \$112 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.

15. SALES OF POWER

	2009	2008
Wholesale	\$ 22,291	\$ 22,999
Industrial	3,191	329
General Service	3,007	2,804
Residential	1,535	1,523
Secondary Sales	1,442	777
Sentinal and Street Lights	81	86
	\$ 31,547	\$ 28,518

16. ADMINISTRATION EXPENSES

	2009	2008
Wages and benefits	\$ 3,723	\$ 3,554
General office	1,132	1,312
Insurance and taxes	1,075	1,016
Information systems	776	456
Training, recruitment and development	539	604
Intercompany services	302	162
Environmental	237	130
Board of Directors	113	256
Regulatory loss	65	196
Material management and contracting	54	65
	\$ 8,016	\$ 7,751

17. OPERATIONS AND MAINTENANCE EXPENSES

	2009	2008
Wages and benefits	\$ 3,939	\$ 3,735
Maintenance		
- building and vehicle	1,002	882
- lines and substations	869	869
- hydro, diesel and wind	762	823
Fuel	870	291
Water level measurement	155	160
	\$ 7,597	\$ 6,760

Yukon Energy Corporation

Notes to Financial Statements

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December 31, 2009

18. RELATED PARTY TRANSACTIONS

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

	2009	2008
Revenue		
Sales of service to YDC	\$ 301	\$ 161
Program cost reimbursement from YG	92	92
Rate subsidy received from YDC	226	206
Operating expenses		
Payment of interest on borrowings from YDC	\$ 6,299	\$ 4,711
Payment for financial information system usage to YDC	147	177
Other income		
Contribution from YDC for settlement of lawsuit	\$ -	3,000
Other receipts		
Capital Contributions from YDC for Carmacks Stewart Transmission Line	\$ -	\$ 2,957
Capital Contributions from YG for Carmacks Stewart Transmission Line	-	10,000
Capital Contributions from YDC for Aishihik Hydro third turbine	2,833	750
Advance from YG	25,000	-
Other payments		
Payment of dividend to YDC	\$ 3,963	\$ 3,901

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

	2009	2008
YDC		
Accounts receivable	\$ 2,045	\$ 245
Accounts payable	\$ 109	\$ 338
Construction Financing	\$ 25,000	\$ -
Current portion of long-term debt	\$ 3,035	\$ 4,003
Long-term debt	\$ 99,074	\$ 95,820
YG		
Accounts receivable	\$ 210	\$ 92

These balances are non-interest bearing and payable on demand except for long-term debt (Note 14).

Yukon Energy Corporation

Notes to Financial Statements

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December 31, 2009

19. 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, 2009 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, 2009. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2009	December 31, 2008
Equities	51.4%	45.1%
Fixed Income Securities	39.5%	45.0%
Real Estate	9.1%	9.9%

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

	2009	2008
Discount rate-accrued benefit obligation	6.25%	6.25%
Discount rate-benefit costs	6.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.50%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	12 years

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2009

19. PENSION COSTS AND OBLIGATIONS - continued

Benefit obligation determined by actuarial valuation	\$	10,491	\$	9,583
Fair value of plan assets		7,751		6,589
Plan deficit	\$	2,740	\$	2,994
Unrecognised amount:				
- transitional asset		135		152
- net actuarial losses		(1,703)		(2,213)
Accrued benefit liability	\$	1,172	\$	933
Current portion of accrued benefit liability	\$	136	\$	132
Long-term portion of accrued benefit liability		1,036		801
Accrued benefit liability	\$	1,172	\$	933
Pension expense	\$	584	\$	523
Employer contributions	\$	345	\$	394
Employee contributions	\$	112	\$	123
Benefits paid	\$	132	\$	154

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$136,000 (2008 - \$132,000) 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 2009, these were \$256,000 (2008 - \$220,000).

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$601,000 (2008 - \$614,000).

As at December 31, 2009, the Utility's defined benefit pension plan had 36 members (2008 - 36), and the RRSP had 49 members (2008 - 45).

20. COMMITMENTS

Aishihik water licence

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

- annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- Heritage Mitigation Plan. The Utility did not incur expenditures in 2009 on heritage projects and the amount to be expended in the future has not yet been determined; and
- annual fish monitoring programs.

Yukon Energy Corporation

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December 31, 2009

20. COMMITMENTS - continued

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

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 2009, all conditions had not been met and it cannot be estimated at this time when all conditions will be met.

Contractual obligations

The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31 2009 as the product or service had not been provided. The commitment at year end are for: Construction \$2,323,000; Maintenance \$898,000; Engineering \$2,410,000 and Consulting \$1,139,000.

21. ENVIRONMENTAL LIABILITIES

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

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

As at December 31, 2009 no new environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2009, 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, 2009 is approximately \$18.7 million.

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 14.

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.

Yukon Energy Corporation

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22. 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 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.

23. 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 YUB.

The long-term debt with YDC of \$17.424 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)	2009	2008
Long-term debt due within one year	\$ 3,783	\$ 4,721
Long-term debt	105,355	102,753
Total Debt	109,138	107,474
Less debt related to the Transmission Line Construction Financing (Note 14)	17,424	16,000
Total debt to include in the calculation	\$ 91,714	\$ 91,474

Yukon Energy Corporation

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23. CAPITAL MANAGEMENT - continued

Share capital	\$	39,000	\$	39,000
Retained earnings		21,943		21,777
<hr/>				
Total equity		60,943		60,777
<hr/>				
Total capitalization	\$	152,657	\$	152,251
<hr/>				
Total debt to total capitalization		60 %		60 %
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There were no changes in the Utility's approach to capital management during the period.

24. SUBSEQUENT EVENTS

Subsequent to year end, the Utility entered into contracts for the construction of the transmission line from Pelly Crossing to Stewart Crossing. The cost of the contracts are \$11.685 million payable over the course of construction and work is scheduled to be complete during 2010.

In addition the Utility entered into an agreement for the construction of a new hydroelectric powerhouse and related facilities in Mayo. The agreement has a target price of \$77.7 million payable over the course of construction which is to be completed by March 31, 2012. The Utility has the right to terminate the agreement if all permits are not in place by certain dates.

25. COMPARATIVE FIGURES

Certain 2008 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)

Utility Revenue	2008 Actuals (Restated)	2009 Actuals
Utility Electric Sales	28,893	31,171
Transfer from De-watering Account ¹	26	355
Other Revenue	272	181
Total	29,191	31,707
Utility Expense		
Labour	7,288	7,663
Non-Labour		
Operations and Maintenance	2,693	2,856
Administration	2,671	2,707
Insurance (excluding auto)	748	787
Donations	86	94
Fuel	483	622
Purchased Power	41	36
Total Operating and Maintenance Costs	14,010	14,765
Depreciation		
Fixed Asset Depreciation	5,596	7,214
Amortization of Contribution for Extensions	(431)	(1,896)
Amortization of Fire Insurance Gain	(270)	(270)
Amortization of Deferred Costs (including RFID)	1,437	1,611
Rate Case costs not allowed by YUB	-	224
Other Taxes	268	288
Total Expenses	20,610	21,936
Less: Donations	86	94
Disallowed Expenses ²		224
Disallowed Depreciation	4	4
Total	20,520	21,614
Utility (Regulatory) Income	8,671	10,094
Net Rate Base	141,050	146,402
Rate Of Return on Capital	6.147%	6.894%
<i>Rate of Return on Equity</i>	6.801%	7.914%
<i>Cost of Debt</i>	5.713%	6.216%

1 - Board Order 2009-10 approved use of the Faro Dewatering account to address the 2008 revenue deficiency of \$26k and the 2009 deficiency of \$355k.

2 - Disallowed expenses include \$224k related to rate case expenses (per Order 2009-11).



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

	2008 Actuals (Restated)	2009 Actuals (Unaudited)
Property, Plant and Equipment	275,268	289,834
Less: Work in progress	9,387	25,535
Accumulated Depreciation	77,939	84,355
Reserve for Future Removal and Site Restoration	5,168	5,008
Deferred Fire Gain	7,356	7,086
Customer Contributions (excluding for WIP)	45,077	45,297
Net PPE in ratebase	130,341	122,553
Add: Deferred Study and Relicensing Costs	12,103	19,814
Deferred Downsizing Costs	(0)	(0)
Accumulated Disallowed Depreciation	74	78
Less: Disallowed Assets	200	200
Reserve for Injuries and Damages	(506)	(111)
Regulatory Liabilities ¹	1,191	398
Net balance at year end	141,633	141,958
Add: Previous Year's Balance	136,509	141,633
Total	278,141	283,591
Mid-year balance	139,071	141,796
Add: Allowance for Working Capital	3,347	3,595
Mid-Year Rate Case Expense	1,009	1,012
Adjust for CSTP	(2,377)	
Net Rate Base	141,050	146,402

1 - Regulatory Liabilities consists of deferred dewatering revenues



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

Working Capital	2008 Actuals (Restated)	2009 Actuals (Unaudited)
Operation and Maintenance	14,010	14,765
Add: Other Taxes	268	288
Less: Donations and Disallowed expenses	281	159
Allowable Operating Expense	13,997	14,894
Allowance: Operating Expense (27/365 * Allowable Operating Expense in 2007)	1,035	1,102
Three Year Average Inventory	2,348	2,574
GST Impact	(36)	(81)
Total Working Capital	3,347	3,595



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

	2008 Actuals (Restated)	2009 Actuals (Unaudited)
Utility Income	8,671	10,094
Add Non Utility Income:		
Allowance for Funds Used During Construction	774	392
Sub-Total	9,445	10,486
Less Non Utility Expenses:		
Long Term Interest	5,193	6,893
Other Interest	(78)	(1,164)
Donations	86	94
Disallowed Expenses ¹	195	65
Disallowed Depreciation	4	4
Net Earnings (Restated)	4,045	4,594
Adjustments to Net Earnings	241	(241)
Net Earnings (per Financial Statements)	4,286	4,353

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

2 - Adjustments to net earnings per FS reflect the impact of Board Order 2009-8 on 2008 and 2009 utility earnings.

For 2008 this includes - Revenue increase: \$375k additional secondary sales revenue, \$26k from "dewatering" account; Expense increase: 400k rate case amortization expense, 50k RFID increase and 166k diesel fuel price adjustment. Net Adjustment is 241k reduction to the net earnings per FS.

For 2009 this includes - Revenue decrease: \$375k secondary sales revenue, \$26k from "dewatering" account; Expense decrease: 400k rate case amortization expense, 50k RFID decrease and 166k diesel fuel price adjustment. Net Adjustment is 241k increase to the net earnings per FS.

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

Capital Assets	2008 Actuals (Restated)	2009 Actuals (Unaudited)
Land	1,117	1,116
Hydroelectric and Diesel Plants	139,601	142,233
Transmission	83,783	84,426
Distribution	26,307	26,982
Buildings, Office and General Equipment	17,174	18,238
Transportation	2,861	3,369
Construction Work-in-Progress	4,340	20,898
Cost	275,183	297,262
Less: Accumulated Depreciation	77,939	84,355
Net Book Value	197,244	212,907
Less: Contribution for Extensions	45,077	45,297
Net Capital Assets	152,167	167,610

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

2008 Actuals (Restated)	Capital Ratio	Cost	Return Component
Long Term Debt	60.1	5.713	3.431
Common Equity	39.9	6.801	2.717
	100.00		6.147
2009 Actuals (Unaudited)	Capital Ratio	Cost	Return Component
Long Term Debt	60.0	6.216	3.733
Common Equity	40.0	7.914	3.162
	100.00		6.894



YUKON ENERGY CORPORATION

DIRECTORS AND OFFICERS

DECEMBER 31, 2009

DIRECTORS

Pat Irvin, Chair

Whitehorse, Yukon

Paul Birckel

Whitehorse, Yukon

Barb Joe

Whitehorse, Yukon

Luke Johnson

Whitehorse, Yukon

OFFICERS

David Morrison

President & Chief Executive Officer

Shelley Dixon

Corporate Secretary

Ed Mollard

Chief Financial Officer