

YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2001

(audited)

MANAGEMENT REPORT

The consolidated financial statements and all other financial information relating to Yukon Development Corporation contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates. The preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

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

The financial statements have been examined by an external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and changes in cash flows in accordance with generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act (Yukon)* as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

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



Duncan Sinclair
President and Chief Executive Officer
May 16, 2002



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

The Honourable Scott Kent
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2001 and the consolidated statements of 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and by its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the Corporation.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 16, 2002

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED BALANCE SHEET**

As at December 31, 2001

(in thousands of dollars)

	2001	2000
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 25,867	\$ 24,234
Accounts receivable (note 4)	7,006	11,704
Inventories	2,272	2,155
Prepaid expenses	452	379
Current portion of investment (note 5)	254	224
	35,851	38,696
Long-term receivables		
Mortgages receivable	39	137
	39	137
Capital assets (note 7)	131,369	124,960
Deferred charges (note 8)	4,777	4,168
Investments (note 5)	4,082	4,336
Reserve for uninsured losses (note 9)	291	316
Funds held in trust (note 6)	1,405	-
Rate stabilization fund (note 10)	2,663	6,054
Diesel contingency fund (note 11)	682	(61)
	\$ 181,159	\$ 178,606
Liabilities		
Current liabilities		
Accounts payable	2,881	2,460
Current portion of long-term debt (note 12)	972	910
Interest payable	15	15
Regulatory Liabilities (note 13)	1,804	2,086
	5,672	5,471
Long-term debt (note 12)	43,416	44,323
Deferred revenue (note 14)	15,371	15,428
Reserve for future removal and site restoration costs	5,041	4,644
Rate stabilization fund (note 10)	2,663	6,054
Diesel contingency fund (note 11)	682	(61)
	72,845	75,859
Equity		
Contributed capital	41,501	41,501
Retained earnings	66,813	61,246
	108,314	102,747
	\$ 181,159	\$ 178,606

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

Contingencies and commitments (Note 17)

Approved by the Board:

Chair

Director

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

For the year ended December 31, 2001

(in thousands of dollars)

	2001	2000
Revenue		
Sales of power	\$ 22,242	\$ 22,386
Interest income	1,141	1,333
Other	571	1,159
Finance Income	559	586
Contributions - Canada	289	-
Contributions - Yukon	141	180
	24,943	25,644
Operating expenses		
Administration	5,785	8,928
Operations and maintenance	5,208	5,413
Amortization of capital assets	5,194	4,738
Amortization of deferred charges	452	397
	16,639	19,476
Income from operations	8,304	6,168
Other expenses		
Interest on long-term debt	1,765	1,808
Program expenses (note 15)	922	352
Provision for uninsured losses	50	50
	2,737	2,210
Net income	5,567	3,958
Retained earnings, beginning of year	61,246	57,288
Retained earnings, end of year	\$ 66,813	\$ 61,246

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

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31, 2001

(in thousands of dollars)

	2001	2000
Cash provided by (used in) operating activities		
Net income	\$ 5,567	\$ 3,958
Items not resulting in a cash payment		
Amortization of capital assets	5,194	4,738
Amortization of deferred charges	452	397
Increase in reserve for future removal & site restoration	397	575
	6,043	5,710
Changes in non-cash components of working capital		
Decrease (increase) in accounts receivable	3,715	(864)
Increase in inventories	(118)	(1,343)
Increase in prepaid expenses	(73)	(32)
Increase in funds held in trust	(1,405)	-
Increase (decrease) in accounts payable	420	(529)
Decrease in interest payable	-	(1)
(Decrease) increase in deferred revenue	(57)	3,081
Increase (decrease) in regulatory liabilities	(282)	1,621
	2,200	1,933
Cash provided by operating activities	13,810	11,601
Cash provided by (used in) investing activities		
Additions to capital assets	(11,536)	(9,656)
Additions in deferred charges	(1,061)	(854)
Increase in reserve for uninsured losses	25	430
Principal payments received on investments	224	198
Cash used in investing activities	(12,348)	(9,882)
Cash provided by (used in) financing activities		
Repayments of long-term debt	(910)	(787)
Decrease in long-term receivables	1,081	4,070
Cash provided by financing activities	171	3,283
Net Increase in cash during the year	1,633	5,002
Cash beginning of year	24,234	19,232
Cash end of year	\$ 25,867	\$ 24,234
Supplementary disclosure: Interest paid in the year	\$ 1,764	\$ 1,821

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., were incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Yukon Energy Corporation and Energy Solutions Centre Inc. are exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiaries, Energy Solutions Centre Inc. and Yukon Energy Corporation and take into account generally accepted accounting methods and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of significant accounting policies follows.

Water Regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams.

Rate Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when Yukon Energy Corporation makes a General

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with 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 the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are 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;
- 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).

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 a cost of service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council issued by the Yukon Cabinet, which give specific government direction to the Board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Inventories

Inventories which consist of material, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative 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	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers' specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings on a straight-line basis over five years starting in the year that the project is abandoned.

Costs related to water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing license plus the expected term of the renewed license, which is generally a long term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings on a straight-line basis over the period to which the hearing relates.

General equipment overhaul expenditures in excess of \$250,000 are deferred and amortized to earnings on a straight-line basis over five years.

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

Investments

The Corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of \$50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Contribution - Canada

Contributions are received from the Government of Canada as part of a contribution agreement between the Corporation and Natural Resources Canada. The purpose of the program is to stimulate energy efficiency and renewable energy technologies. The program is delivered by the subsidiary, Energy Solutions Centre Inc. and revenue is recognized on an accrual basis, when services are performed.

Contribution - Yukon

Contributions were received in 1999 as part of the Yukon Government's commitment to sustainable energy development. These contributions are recognized as income when the eligible expenses are incurred.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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, the reserve for future removal and site restoration costs and other long-term receivables. Actual results could differ from these estimates.

3. Cash and cash equivalents

	2001	2000
Bank balance	\$ 11,306	\$ 10,172
Short-term investments	14,561	14,062
	\$ 25,867	\$ 24,234

Short term investments are monies invested in a pooled money market fund. The fixed-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2001 was 2.64% (2000 - 6.03%).

Yukon Energy Corporation also has, if needed, an operating demand line of credit with its banker that allows the Corporation to borrow up to \$10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

4. Accounts receivable

	2001	2000
Fire insurance claim	\$ 2,235	\$ 4,787
Rate adjustment receivable	1,809	2,103
Retail energy sales	1,231	1,940
Wholesale energy sales	1,144	1,664
Anvil Range Mine revenue shortfalls	-	983
Other	587	227
	\$ 7,006	\$ 11,704

Accounts Receivable includes \$2,446,000 (2000 - \$2,203,000) due from the Yukon Electrical Company Limited. Yukon Energy Corporation's sales to the Yukon Electrical Company Limited were approximately \$14,981,000 (2000 - \$15,020,000) but, due to the wholesale nature of the sales, Yukon Energy Corporation is not economically dependent on it.

5. Investments

The Corporation's investments are summarized as follows:

	2001	2000
Direct financing lease	\$ 4,336	\$ 4,560
Less: current portion	254	224
	\$ 4,082	\$ 4,336

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term (in 2011) the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is recognized as finance income.

6. Funds held in trust

	2001	2000
Construction contract holdbacks	\$ 789	\$ -
Energy infrastructure investment	616	-
	\$ 1,405	\$ -

Construction contract holdbacks represent holdbacks from payments made to the general contractor on the Mayo to Dawson Transmission Line Project. These will be held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies will be released.

Energy infrastructure investment represents monies held by Yukon Development Corporation on behalf of a Yukon First Nation for investment in energy infrastructure. The ultimate use of these funds is subject to the finalization of necessary investment agreements.

An offsetting liability is recorded in accounts payable and is equal to the balance of Funds held in trust.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

7. Capital assets

			2001	2000
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	\$ 124,463	\$ 32,621	\$ 91,842	\$ 91,650
Transmission	19,418	6,353	13,065	13,010
Distribution	10,525	3,403	7,122	6,919
Buildings and other equipment	12,038	3,198	8,840	8,277
Financial information system	1,305	354	951	1,153
Transportation	1,206	187	1,019	734
Land	110		110	110
Construction-in-progress	10,522		10,522	4,782
	179,587	46,116	133,471	126,635
Less: Contributions for plant extensions	2,707	605	2,102	1,675
	\$ 176,880	\$ 45,511	\$ 131,369	\$ 124,960

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility equaled \$13,395,000 are included in the capital asset costs above. As an offset, an amount equal to \$11,604,000 representing insurance proceeds received to cover the cost of reconstruction is accounted for as a deferred revenue (see note 14). The difference, equal to \$1,791,000 (2000 - \$1,791,000), represents the value of betterments which improved the facility beyond the value replaced by the insurance proceeds.

8. Deferred charges

			2001	2000
	Cost	Accumulated amortization	Net book value	Net book value
Relicensing	\$ 4,753	\$ 806	\$ 3,947	\$ 3,438
Feasibility Studies	528	237	291	238
Downsizing Costs	301	29	272	
Generating equipment overhauls	834	695	139	308
Dam Safety Review	91	36	55	
Deferred diesel fuel price adjustment	73	-	73	111
Other	-	-	-	73
	\$ 6,580	\$ 1,803	\$ 4,777	\$ 4,168

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

8. Deferred charges (continued)

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel expense are deferred and recovered or refunded over designated future periods prescribed by the YUB through revised rates charged to customers.

9. Reserve for uninsured losses

	2001	2000
Opening Balance	\$ 316	\$ 746
Provision	(50)	(50)
Adjustment	-	(503)
Losses incurred		
Forest fire	25	-
Wind storm	-	84
Whitehorse Rapids Generation interruption	-	36
Asset replacement	-	3
Closing Balance	\$ 291	\$ 316

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

As a result of the 1997 fire at the Whitehorse Rapids Generation facilities, approximately \$503,000 was charged to the reserve during 1997 and 1998 (\$100,000 for the deductible under Yukon Energy Corporation's insurance policy and \$403,000 for fire-related diesel generation not specifically covered by the insurance policy). Given that Yukon Energy Corporation was able to negotiate a "gain on insurance proceeds" under its insurance policy, the reserve was reimbursed in 2000 for these fire-related costs. However, all adjustments to the reserve are subject to the approval of the Yukon Utilities Board which Yukon Energy Corporation has requested in it's report to the Board on the impacts from the fire filed on April 26 2002.

10. Rate stabilization fund

The ten million dollar Rate Stabilization Fund was created in 1999 by the Yukon Government with a mandate to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal rate payers by minimizing the impact of rate increases over this period. The Yukon Government has announced a further twelve million dollars will be added to the fund, extending the life of this program to 2005 (see commitment note 17b)).

	2001	2000
Opening Balance	\$ 6,054	\$ 8,595
Payments	(3,609)	(2,954)
Interest	218	413
Closing Balance	\$ 2,663	\$ 6,054

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

11. Diesel contingency fund

The Diesel Contingency Fund was established with Board Order 1996-6 by the Yukon Utilities Board. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

	2001	2000
Opening Balance	\$ (61)	\$ (57)
Whitehorse Rapids Generating Facility fire adjustment	744	-
Interest	(1)	(4)
Closing Balance	\$ 682	\$ (61)

The Whitehorse Rapids Generating Facility fire adjustment is the Corporation's calculation of the impact of the October 1997 fire to the Diesel Contingency Fund in 1999. In the April 26, 2002 filing to the Yukon Utilities Board on the impact of the fire, the Corporation has requested approval of this adjustment to the Diesel Contingency Fund.

12. Long-term debt

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

	2001	2000
Government of Canada		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of \$1,000,000 interest and principal, with the balance due January 1, 2028	\$ 29,302	\$ 29,546
Great West Life		
\$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of \$60,000 interest and principal with the final payment due July 2011	4,332	4,557
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.94% payable in monthly installments of \$102,000 interest and principal, with the balance of \$67,000 due October 31, 2016. The note is guaranteed by the Yukon Government.	10,754	11,130
	44,388	45,233
Less: Current portion	972	910
	\$ 43,416	\$ 44,323

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the acquired assets.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

12. Long-term debt (continued)

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.

Mortgage payable

The mortgage is secured by land and buildings described in note 7.

Long-term debt repayment

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

2002	\$	972
2003		1,043
2004		1,117
2005		1,108
2006		1,281
Thereafter		38,867
	\$	44,388

Fair value

Fair value of \$46,945,000 (2000 - \$43,579,000) for all long-term debt was estimated using discounted cash-flow analysis based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

13. Regulatory Liabilities

	2001	2000
Insurance proceeds held on behalf of ratepayers	\$ 744	\$ 1,488
Anvil Range Mine dewater revenue	1,060	598
	\$ 1,804	\$ 2,086

The Insurance proceeds held on behalf of ratepayers amount represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The Corporation is required to use the balance of the insurance proceeds to the benefit of ratepayers. The allocation of this amount will be the subject of a decision of the Yukon Utilities Board. On April 26, 2002, in accordance with Board direction, Yukon Energy Corporation filed its report to the Yukon Utilities Board related to the impacts of fire. As part of this report, Yukon Energy Corporation has reported on potential impact to the Diesel Contingency Fund (see note 11). This may affect the ultimate allocation of insurance proceeds.

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Corporation is deferring revenues collected from this rate class until application to the benefit of customers is directed by the YUB.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

14. Deferred revenues

	2001	2000
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments \$2,698,000 (2000 - \$2,550,000))	8,906	9,054
Sustainable energy development funds	6,465	6,374
	\$ 15,371	\$ 15,428

The deferred gain on fire insurance proceeds - capital assets represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities (\$11,604,000 - see notes 7 and 13) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3 (see note 7). On April 26, 2002, in accordance with Board direction, Yukon Energy Corporation filed its report with the Yukon Utilities Board on related impacts of the fire.

The Yukon Government provided \$6,000,000 towards sustainable energy for the Yukon people. Two 10 year programs were established totaling \$4,000,000 for green power and energy conservation and efficiency initiatives. Two million dollars was provided for a wind turbine that was built in 2000. Interest on these amounts is also recorded as deferred revenue.

15. Other expenses

	2001	2000
Energy market transformation	\$ 436	\$ 176
Energy sector development	335	166
Corporate leadership	87	-
First Nations, community and environment initiatives	64	10
	\$ 922	\$ 352

16. Pension costs and obligations

Yukon Energy Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is 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, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

(tabular amounts in thousands of dollars)

16. Pension costs and obligations (continued)

An actuarial valuation for funding purposes was performed as of January 1, 2001 by the consulting actuarial firm Aon Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2001 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2001 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as at December 31, 2001.

The following table sets out the assumptions and pension amounts as at December 31, 2001. Yukon Energy Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining Yukon Energy Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2001 the Corporation's defined pension plan had 41 members, and the RRSP had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 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 5 year period.

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. Yukon Energy Corporation contributes amounts as prescribed by an independent actuary.

Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the years maximum pensionable earnings
- 5.0% of earnings in excess of years maximum pensionable earnings

to a maximum of \$2,500 per year.

Information about Yukon Energy Corporation's defined benefit plan as at December 31, in aggregate, is as follows:

YUKON DEVELOPMENT CORPORATION

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(tabular amounts in thousands of dollars)

16. Pension costs and obligations (continued)

	2001	2000
Discount rate	6.50%	7.00%
Expected long term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	18 years
Benefit obligation determined by actuarial valuation	\$ 4,862	\$ 4,397
Fair value of plan assets	4,183	4,262
Plan deficit	(679)	(135)
Accrued benefit liability	(95)	(35)
Pension expense	268	202
Employer contributions	208	201
Employee contributions	79	87
Benefits paid	(206)	(8)

The Accrued benefit liability has been recorded on Yukon Energy Corporation's books of account and is included in Accounts payable on the balance sheet at December 31, 2001.

17. Contingencies and commitments

a) Mayo to Dawson transmission line contract

During 2001, Yukon Energy Corporation entered into a contract for the construction of a transmission line from the Mayo hydro generation plant to the Dawson distribution system. The total cost of the contract is \$22 million payable over the course of construction which is estimated to be 19 months. The cost of the contract will be financed via a combination of debt and grants from Yukon Development Corporation and a portion will be financed by internally-generated funds. As of December 31, 2001, the Yukon Energy Corporation has spent \$5,458,000 toward the completion of this contract. The total cost of the project will be reviewed by the Yukon Utilities Board as part of Yukon Energy Corporation's next rate application.

b) Rate stabilization fund

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stabilization Fund through a \$12 million investment beginning in 2002. This investment is expected to sustain the Fund until 2005. Yukon Development Corporation expects to invest up to \$7.8 million of internally-generated funds before April 1, 2004.

c) Regulatory hearing funding

The Yukon Government issued OIC 2002/75 on March 27 2002, directing Yukon Development Corporation to pay all costs incurred by the Yukon Utilities Board to conduct a utility franchise application review process with respect to a proposed gas distribution system within the City of Whitehorse. The amount of costs Yukon Development Corporation will ultimately pay is not determinable at this time.

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17. Contingencies and commitments (continued)

d) Compensation arising from water re-licensing activities

Yukon Energy Corporation is pursuing renewal of the water license for the Aishihik Hydro Generation Facility for the fourth quarter of 2002. The decision of the Yukon Water Board, which has jurisdiction in this matter, will likely include compensation to local water users affected by the operation of the facility as defined under the *Yukon Waters Act*. The Yukon Water Board has not rendered a decision to date. As such, the amount owing by Yukon Energy Corporation is not determinable at this time.

18. Environmental liabilities

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

19. Comparative figures

Certain 2000 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

20. Non-consolidated financial information

The nature and size of operations of the corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2001 are also prepared and included in Yukon Development Corporation's annual report. Certain non-consolidated unaudited financial information of the Parent corporation is provided in the corporation's annual report for interested parties.