

YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2002

(audited)

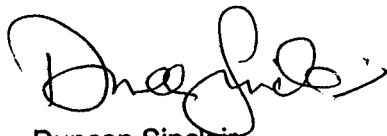
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

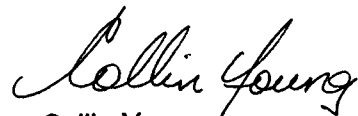
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified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

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* 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
Chief Executive Officer



Collin Young
Chief Financial Officer

Whitehorse, Yukon
May 2, 2003



AUDITOR'S REPORT

The Honourable Archie Lang
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2002 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, 2002 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 2, 2003

YUKON DEVELOPMENT CORPORATION
CONSOLIDATED BALANCE SHEET

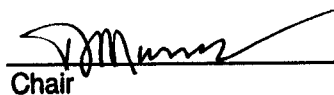
(In thousands of dollars)

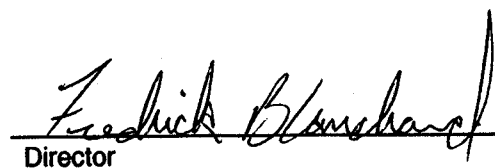
| As at December 31, 2002 | 2002 | 2001 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | \$ 7,895 | \$ 25,867 |
| Accounts receivable (note 4) | 4,695 | 7,006 |
| Inventories | 2,360 | 2,272 |
| Prepaid expenses | 715 | 452 |
| Current portion of investments (note 5) | 298 | 254 |
| | 15,963 | 35,851 |
| Long-term receivables | | |
| Mortgages receivable | 33 | 39 |
| | 33 | 39 |
| Capital assets (note 7) | | |
| | 153,602 | 131,369 |
| Deferred charges (note 8) | 6,745 | 4,777 |
| Investments (note 5) | 3,810 | 4,082 |
| Reserve for uninsured losses (note 9) | 346 | 291 |
| Funds held in trust (note 6) | 4,111 | 1,405 |
| Rate stabilization fund (note 10) | 2,356 | 2,663 |
| Diesel Contingency Fund (note 11) | 734 | 682 |
| | \$ 187,700 | \$ 181,159 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 6,852 | \$ 2,881 |
| Current portion of long-term debt (note 12) | 1,052 | 972 |
| Interest payable | 14 | 15 |
| Regulatory liabilities (note 13) | 2,169 | 1,804 |
| | 10,087 | 5,672 |
| Long-term debt (note 12) | 42,439 | 43,416 |
| Deferred revenues (note 14) | 14,241 | 15,371 |
| Reserve for future removal and site restoration costs | 4,875 | 5,041 |
| Rate stabilization fund (note 10) | 2,356 | 2,663 |
| Diesel Contingency Fund (note 11) | 734 | 682 |
| | 74,732 | 72,845 |
| Equity | | |
| Contributed capital | 41,501 | 41,501 |
| Retained earnings | 71,467 | 66,813 |
| | 112,968 | 108,314 |
| | \$ 187,700 | \$ 181,159 |

Contingencies and commitments (note 16)

The accompanying notes are an integral part of the financial statements

Approved by the Board:


 Chair


 Director

YUKON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(In thousands of dollars)

| For the year ended December 31, 2002 | 2002 | 2001 |
|---|------------------|------------------|
| Revenue | | |
| Sales of power | \$ 23,786 | \$ 22,242 |
| Contributions - Yukon | 808 | 141 |
| Finance income | 529 | 559 |
| Interest income | 456 | 1,141 |
| Other | 386 | 571 |
| Contributions - Canada | 237 | 289 |
| | 26,202 | 24,943 |
| Operating expenses | | |
| Board, corporate stewardship and administration | 7,006 | 5,785 |
| Amortization of capital assets | 5,442 | 5,194 |
| Operations and maintenance | 5,288 | 5,208 |
| Interest on long-term debt | 1,227 | 1,765 |
| Energy sector development | 946 | 335 |
| Energy market transformation | 928 | 446 |
| Amortization of deferred charges | 478 | 452 |
| Corporate, environmental and First Nation initiatives | 183 | 141 |
| Provision for uninsured losses | 50 | 50 |
| | 21,548 | 19,376 |
| Net income | 4,654 | 5,567 |
| Retained earnings, beginning of year | 66,813 | 61,246 |
| Retained earnings, end of year | \$ 71,467 | \$ 66,813 |

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

YUKON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of dollars)

| <i>For the year ended December 31, 2002</i> | 2002 | 2001 |
|--|-----------------|------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | \$ 26,401 | \$ 27,884 |
| Cash paid to employees and suppliers | (10,417) | (12,016) |
| Interest paid | (1,227) | (1,765) |
| Interest received | 982 | 1,700 |
| | 15,739 | 15,803 |
| Cash flows from investing activities: | | |
| Acquisitions of capital assets | (28,608) | (11,165) |
| Long-term investments | 234 | 322 |
| Funds held in trust | (2,661) | (1,450) |
| Deferred charges | (1,779) | (1,032) |
| | (32,814) | (13,325) |
| Cash flows from financing activities | | |
| Repayment of long-term debt | (897) | (845) |
| | (897) | (845) |
| (Decrease) Increase in cash position | (17,972) | 1,633 |
| Cash position, beginning of year | 25,867 | 24,234 |
| Cash position, end of year | \$ 7,895 | \$ 25,867 |
| Represented by: | | |
| Cash and short-term investments | 3,820 | 21,424 |
| Restricted funds | 4,075 | 4,443 |
| | 7,895 | 25,867 |

The accompanying notes are an integral part of the financial statements

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation (the Corporation) was 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 benefit 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, Yukon Energy Corporation and Energy Solutions Centre Inc. The consolidated financial statements reflect Canadian generally accepted accounting principles 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 for a non-regulated entity.

Water regulation

The Yukon Territory Water Board decides if Yukon Energy Corporation will have water licences for the purposes of operating dams for hydro generation and the duration of the licenses. The licenses will indicate terms and conditions for the operation of the hydro dams.

Rate regulation

Yukon Energy Corporation is regulated by both 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 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 utility 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

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

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 determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided 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 will take place and rates are approved as final as a result. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Inventories

Inventories, consisting of materials, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Capital assets

Capital assets are stated at cost. Cost of self-constructed assets 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 | 8 to 14 years |
| Other equipment | 5 to 15 years |

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 the asset to which they relate and are offset against the amortization charge. 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.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 (tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

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.

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.

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.

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 recognized when electricity is delivered.

Contribution – Canada

Revenue from contribution agreements with Canada is recognized on the accrual basis, when the services are performed.

Contribution – Yukon

In 1999, the Yukon Government contributed funds to the corporation, as part of the government's commitment to sustainable energy development. The contributions have been recorded as deferred revenue. Revenue is recognized when 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 long-term receivables. Actual results may differ from the estimates.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments

The Corporation's consolidated financial instruments consist of accounts receivable, investments, long-term receivables and accounts payable, interest payable and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, or credit risks arising from these financial instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

3. Cash and cash equivalents

| | 2002 | 2001 |
|------------------------|-----------------|------------------|
| Bank balance | \$ 2,393 | \$ 11,306 |
| Short-term investments | 4,340 | 10,118 |
| Restricted funds | 4,075 | 4,443 |
| Bank indebtedness | (2,913) | - |
| | \$ 7,895 | \$ 25,867 |

Short-term investments and restricted funds 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 2002 was 2.96% (2001 - 2.64%).

Yukon Energy Corporation has a demand line of credit facility with TD Canada Trust for up to \$10,000,000 at bank prime. The Yukon Government guarantees the overdraft facility. At year end the Yukon Energy Corporation borrowed \$1,100,000 on the credit facility.

4. Accounts receivable

| | 2002 | 2001 |
|----------------------------|-----------------|-----------------|
| Retail energy sales | \$ 2,598 | \$ 2,235 |
| Wholesale energy sales | 1,704 | 1,809 |
| Other | 254 | 587 |
| Rate adjustment receivable | 124 | 1,144 |
| Fire insurance claim | 15 | 1,231 |
| | \$ 4,695 | \$ 7,006 |

Accounts receivable includes \$2,528,000 (2001 - \$2,446,000) due from the Yukon Electrical Company Limited. Yukon Energy Corporation's sales to the Yukon Electrical Company Limited were \$15,288,000 (2001 - \$14,981,000) but, due to the wholesale nature of the sales, Yukon Energy Corporation is not economically dependent on it.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

5. Investments

The Corporation's investments are summarized as follows:

| | 2002 | 2001 |
|---|----------|----------|
| Direct financing lease | \$ 4,082 | \$ 4,336 |
| Leases receivable, net of deferred finance income | 26 | - |
| | 4,108 | 4,336 |
| Less: current portion | 298 | 254 |
| | \$ 3,810 | \$ 4,082 |

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

| | 2002 | 2001 |
|----------------------------------|----------|----------|
| Construction contract holdbacks | \$ 3,479 | \$ 789 |
| Energy infrastructure investment | 632 | 616 |
| | \$ 4,111 | \$ 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 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, 2002 (tabular amounts in thousands of dollars)

7. Capital assets

| | 2002 | | 2001 | |
|--|-------------------|--------------------------|-------------------|-------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Hydro-electric and diesel plants | \$ 129,302 | \$ 35,430 | \$ 93,872 | \$ 91,842 |
| Transmission | 19,808 | 6,974 | 12,834 | 13,065 |
| Distribution | 10,771 | 3,787 | 6,984 | 7,122 |
| Buildings and other equipment | 13,580 | 4,131 | 9,449 | 8,840 |
| Financial information system | 1,306 | 550 | 756 | 951 |
| Transportation | 1,276 | 278 | 998 | 1,019 |
| Land | 676 | - | 676 | 110 |
| Construction-in-progress | 30,426 | - | 30,426 | 10,522 |
| | 207,145 | 51,150 | 155,995 | 133,471 |
| Less: Contributions for plant extensions | 3,465 | 1,072 | 2,393 | 2,102 |
| | \$ 203,680 | \$ 50,078 | \$ 153,602 | \$ 131,369 |

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 used to reconstruct the facility equaled \$13,395,000 and are included in the above capital assets. \$11,604,000 representing the insurance proceeds received to cover the cost of reconstruction is recorded as deferred revenue (see note 14). The difference of \$1,791,000 (2001 - \$1,791,000), represents the value of betterments, which improved the facility beyond the value replaced by the insurance proceeds.

8. Deferred charges

| | 2002 | | 2001 | |
|--------------------------------|-----------------|--------------------------|-----------------|-----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Relicensing | \$ 6,830 | \$ 1,094 | \$ 5,736 | \$ 3,947 |
| Feasibility Studies | 637 | 115 | 522 | 291 |
| Downsizing Costs | 320 | 72 | 248 | 272 |
| Generating equipment overhauls | 348 | 278 | 70 | 139 |
| Dam Safety Review | 92 | 55 | 37 | 55 |
| Diesel fuel price adjustment | 132 | - | 132 | 73 |
| | \$ 8,359 | \$ 1,614 | \$ 6,745 | \$ 4,777 |

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

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its electrical 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 amortized over future designated periods prescribed by the YUB, through revised rates charged to customers.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

9. Reserve for uninsured losses

| | 2002 | 2001 |
|----------------------------|--------|--------|
| Balance, beginning of year | \$ 291 | \$ 316 |
| Provision | (50) | (50) |
| Losses incurred | | |
| Weather related | 72 | - |
| Asset replacement | 33 | - |
| Forest fire | - | 25 |
| Balance, end of year | \$ 346 | \$ 291 |

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.

10. Rate stabilization fund

The Rate Stabilization Fund was created in 1999 with a \$10,000,000 contribution from the Government of Yukon, 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 ratepayers by minimizing the impact of rate increases over this period.

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stabilization Fund until 2005 with Yukon Development Corporation required by OIC 2001/147 to contribute up to \$7,800,000 of internally generated funds before April 1, 2004.

| | 2002 | 2001 |
|----------------------------|----------|----------|
| Balance, beginning of year | \$ 2,663 | \$ 6,054 |
| Capital contribution | 3,000 | - |
| Interest | 84 | 218 |
| Payments | (3,391) | (3,609) |
| Balance, end of year | \$ 2,356 | \$ 2,663 |

11. Diesel Contingency Fund

| | 2002 | 2001 |
|---|--------|---------|
| Opening Balance | \$ 682 | \$ (61) |
| Interest | 52 | (1) |
| Whitehorse Rapids Generating Facility fire adjustment | - | 744 |
| Closing Balance | \$ 734 | \$ 682 |

The Yukon Utilities Board established the Diesel Contingency Fund with Board Order 1996-6. 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.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 (tabular amounts in thousands of dollars)

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.

12. Long-term debt

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

| | 2002 | 2001 |
|--|------------------|------------------|
| Government of Canada | | |
| \$40,000,000 flexible term note bearing interest at 7% repayable in annual principal instalments of \$1,000,000 plus interest, with the balance due January 1, 2028 | \$ 29,057 | \$ 29,302 |
| Great West Life | | |
| \$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly instalments of \$60,000 interest and principal with the final payment due July 2011 | 4,084 | 4,332 |
| TD Canada Trust | | |
| \$12,400,000 term note bearing interest at 7.94% payable in monthly instalments of \$102,000 interest and principal, with the balance of \$67,000 due October 31, 2016. The note is guaranteed by the Yukon Government. | 10,350 | 10,754 |
| | 43,491 | 44,388 |
| Less: Current portion | 1,052 | 972 |
| | \$ 42,439 | \$ 43,416 |

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. 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 long-term debt repayments for the next five years is as follows:

| | |
|------|----------|
| 2003 | \$ 1,052 |
| 2004 | 1,100 |
| 2005 | 1,180 |
| 2006 | 1,268 |
| 2007 | 1,365 |

Fair value

Fair value of \$44,835,000 (2001 - \$46,945,000) 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.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

13. Regulatory liabilities

| | 2002 | 2001 |
|---|-----------------|-----------------|
| Insurance proceeds held on behalf of ratepayers | \$ 744 | \$ 744 |
| Anvil Range Mine dewater revenue | 1,425 | 1,060 |
| | \$ 2,169 | \$ 1,804 |

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 is subject to the Yukon Utilities Board approval.

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 Yukon Utilities Board.

14. Deferred revenues

| | 2002 | 2001 |
|---|------------------|------------------|
| Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments \$3,088 (2001 - \$2,698)) | \$ 8,516 | \$ 8,906 |
| Sustainable energy development funds | 5,725 | 6,465 |
| | \$ 14,241 | \$ 15,371 |

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).

In 1999 the Yukon Government provided \$6,000,000 towards sustainable energy in the Yukon. Two 10-year programs were established totaling \$4,000,000 for green power and energy conservation and efficiency initiatives. \$2,000,000 was provided for a wind turbine that was built in 2000. Interest earned on these funds is recorded as deferred revenue.

15. Pension costs and obligations

Yukon Energy Corporation has a defined benefit pension plan, which provides 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 or 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 16 years.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

15. Pension costs and obligations (continued)

Yukon Energy Corporation 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, 2001 by the consulting actuarial firm Aon Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2002 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, 2002 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 the 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, 2002

The following table sets out the assumptions and pension amounts as at December 31, 2002. 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, 2002 the Corporation's defined pension plan had 42 members, and the RRSP had 24 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 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 on Yukon Energy Corporation's defined benefit plan as at December 31, in aggregate, is as follows:

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

15. Pension costs and obligations (continued)

| | 2002 | 2001 |
|--|----------|----------|
| Discount rate | 6.50% | 6.50% |
| 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 | 16 years | 18 years |
| Benefit obligation determined by actuarial valuation | \$ 5,516 | \$ 4,862 |
| Fair value of plan assets | 4,018 | 4,183 |
| Plan deficit | (1,498) | (679) |
| Accrued benefit liability | (223) | (95) |
| Pension expense | 335 | 268 |
| Employer contributions | 207 | 208 |
| Employee contributions | 89 | 79 |
| Benefits paid | (64) | (206) |

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, 2002.

16. Contingencies and commitments

(a) As of December 31, 2002, the general contractor for the Mayo to Dawson City transmission line project has outstanding claims against Yukon Energy Corporation for work completed prior to December 31, 2002. Yukon Energy Corporation has outstanding claims against the general contractor. The amount and likelihood of settlement are not determinable.

(b) 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.

(c) As described in note 11, the terms of the flexible term note with the Government of Canada provide for payments of principal and interest to be deferred and abated respectively, if particular power sales are less than specified amounts. The Corporation and the Government of Canada disagree on the definition of these power sales and the Corporation is making payments based on its interpretation of the note.

17. 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.

YUKON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 (tabular amounts in thousands of dollars)

18. Comparative figures

Certain 2001 figures, which are presented for comparative purposes, have been restated to conform to the current year's presentation.

19. 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, 2002 are also prepared. Certain non-consolidated unaudited financial information of Yukon Development Corporation is provided for interested parties.

YUKON DEVELOPMENT CORPORATION

Schedule 1

NON-CONSOLIDATED BALANCE SHEET

(unaudited)

As at December 31, 2002

(in thousands of dollars)

| | 2002 | 2001 |
|-----------------------------------|------------|------------|
| Assets | | |
| Current assets | | |
| Cash and short-term investments | \$ 10,807 | \$ 17,769 |
| Note receivable | 16,000 | - |
| Accounts receivable | 270 | 358 |
| Prepaid expenses | 11 | 11 |
| Due from subsidiaries | 327 | - |
| Current portion of investment | 288 | 10,254 |
| | 27,703 | 28,392 |
| Trust Assets | 2,988 | 3,279 |
| Investments | | |
| Equity investments | 39,000 | 39,000 |
| Loans and advances | 27,314 | 27,145 |
| Direct financing lease | 3,793 | 4,082 |
| Capital Assets | 889 | 1,100 |
| Deferred capital funding | 6,844 | 5,483 |
| | \$ 108,531 | \$ 108,481 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 1,077 | \$ 66 |
| Interest payable | 14 | 15 |
| Due to subsidiaries | - | 734 |
| Current portion of long-term debt | 278 | 249 |
| | 1,369 | 1,064 |
| Deferred revenue | 3,809 | 4,381 |
| Trust Liabilities | 2,988 | 3,279 |
| Long-term debt | 3,806 | 4,084 |
| | 11,972 | 12,808 |
| Equity | | |
| Contributed capital | 41,501 | 41,501 |
| Retained earnings | 55,058 | 54,172 |
| | 96,559 | 95,673 |
| | \$ 108,531 | \$ 108,481 |

YUKON DEVELOPMENT CORPORATION

Schedule 2

NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2002

(unaudited)

(in thousands of dollars)

| | 2002 | 2001 |
|--|------------------|------------------|
| Revenue | | |
| Contribution - Canada | \$ 187 | \$ 288 |
| Contribution - Yukon | 808 | 141 |
| Dividend income | 169 | 2,196 |
| Finance income | 529 | 559 |
| Interest income | 3,176 | 3,778 |
| Other income | 185 | 228 |
| | 5,054 | 7,190 |
| Expenses | | |
| Amortization | 364 | 388 |
| Board, Corporate Stewardship and Administration | 662 | 635 |
| Corporate, Environment and First Nations initiatives | 159 | 140 |
| Energy market transformation | 1,068 | 903 |
| Energy sector development | 1,442 | 208 |
| Interest on long term debt | 473 | 501 |
| | 4,168 | 2,775 |
| Net income | 886 | 4,415 |
| Retained earnings, beginning of year | 54,172 | 49,757 |
| Retained earnings, end of year | \$ 55,058 | \$ 54,172 |

YUKON DEVELOPMENT CORPORATION

Schedule 3

NON-CONSOLIDATED CASH FLOWS

(unaudited)

for the year ended December 31, 2002

(in thousands of dollars)

| | 2002 | 2001 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | \$ 1,222 | \$ 1,055 |
| Cash paid to employees and suppliers | (3,359) | (2,914) |
| Net interest received | 2,680 | 3,277 |
| Dividends received in the determination of net income | 169 | 2,196 |
| | <u>712</u> | <u>3,614</u> |
| Cash flows from investing activities: | | |
| Purchases of capital assets | (9) | (83) |
| Long term investments | 255 | 224 |
| Loan and advances with related parties | (6,169) | (2,196) |
| Deferred charges | (1,501) | (2,981) |
| | <u>(7,424)</u> | <u>(5,036)</u> |
| Cash flows from financing activities | | |
| Repayment of long term debt | (249) | (223) |
| Trust Fund Assets | (325) | 3,391 |
| Trust Liabilities | 325 | (3,391) |
| | <u>(249)</u> | <u>(223)</u> |
| Increase (decrease) in cash position | (6,961) | (1,645) |
| Cash position, beginning of year | 17,769 | 19,414 |
| Cash position, end of year | \$ 10,808 | \$ 17,769 |
| Represented by: | | |
| Cash | \$ 6,733 | \$ 13,326 |
| Short term investments - restricted funds | 4,075 | 4,443 |
| | <u>\$ 10,808</u> | <u>\$ 17,769</u> |
| Interest paid during year | 496 | 501 |
| Significant non-cash transactions | | |
| Operating Activities | | |
| Dividends received via non-cash transactions | 169 | 2,196 |
| Investing activities | | |
| Change in investments from non-cash transactions | 169 | 2,196 |
| Financing activities | | |