

YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2007

(audited)

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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.

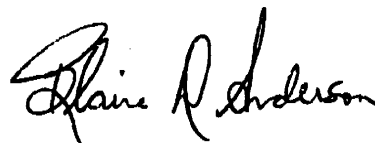
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified 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 and its wholly-owned subsidiaries. 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.

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

David Morrison
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Blaine Anderson".

Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
April 28, 2008



AUDITOR'S REPORT

To the Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2007 and the consolidated statements of income and comprehensive income, 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, 2007 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, except for the change in the method of accounting for financial instruments as explained in Note 2 to the financial statements, 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 subsidiary and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiary 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 regulations, and the bylaws of the Corporation and its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
April 28, 2008

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)

2007

2006

Assets

Current assets

Cash and cash equivalents (note 5)	\$ 6,348	\$ 8,476
Accounts receivable (note 6)	3,701	4,148
Materials and supplies	2,352	2,039
Prepaid expenses	186	181
Current portion of investment (note 7)	583	475

13,170 15,319

Trust assets (note 8)

734 704

Direct financing leases (note 7)

2,017 2,600

Property, plant and equipment (note 9)

157,787 151,612

Diesel contingency fund (note 10)

856 821

Deferred uninsured losses (note 11)

463 500

Deferred charges (note 12)

9,205 9,326

\$ 184,232 \$ 180,882

Liabilities

Current liabilities

Accounts payable	\$ 4,266	\$ 3,891
Current portion of long-term debt (note 16)	1,987	1,911
Regulatory liabilities (note 13)	1,191	1,483

7,444 7,285

Long-term pension liability

741 560

Deferred revenue (note 14)

7,256 7,499

Trust liabilities

734 704

Long-term debt (note 16)

17,201 19,179

Contributions in aid of construction (note 17)

6,322 6,086

Regulatory provision for future removal and site restoration costs

5,241 5,083

Diesel contingency fund (note 10)

856 821

45,795 47,217

Equity

Contributed capital	41,501	41,501
Retained earnings	96,936	92,164

138,437 133,665

\$ 184,232 \$ 180,882

Contingencies and Commitments (notes 19 and 20)

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 Comprehensive Income

For the year ended December 31, (in thousands of dollars)

	2007	2006
Revenue		
Sales of power	\$ 27,766	\$ 27,096
Interest income	415	428
Finance income	308	364
Other income	118	262
	28,607	28,150
Expenses		
Administration	7,399	7,356
Operations and maintenance	5,599	5,375
Depreciation of property, plant and equipment	4,728	4,736
Interest on long-term debt	1,252	1,443
Amortization of deferred charges and water licensing costs	1,119	1,109
Programs	426	470
Provision for uninsured losses (note 11)	100	100
	20,623	20,589
Net income before other items	7,984	7,561
Rate stabilization (note 20)	(3,212)	(4,420)
Loss on disposition of assets	-	(5)
Net income	4,772	3,136

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

Yukon Development Corporation**Consolidated Statement of Retained Earnings**

For the year ended December 31, (in thousands of dollars)	2007	2006
Retained earnings, beginning of year	\$ 92,164	\$ 89,028
Net income	4,772	3,136
Retained earnings, end of year	\$ 96,936	\$ 92,164

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, (in thousands of dollars)	2007	2006
Cash flows from		
Operating activities		
Cash receipts from customers	\$ 28,088	\$ 24,457
Cash paid to employees and suppliers	(16,790)	(17,304)
Interest paid	(1,252)	(1,443)
Interest received	723	792
	10,769	6,502
Financing activities		
Decrease in restricted cash	-	2,617
Repayment of long-term debt	(1,902)	(1,711)
Increase in trust assets	(30)	(25)
Increase in trust liabilities	30	25
	(1,902)	906
Investing activities		
Property and equipment purchased	(10,667)	(4,254)
Proceeds from disposition of investments	475	419
Payments related to regulatory provisions	195	(1,068)
Increase in deferred charges	(998)	(2,137)
	(10,995)	(7,040)
Net increase (decrease) in cash and cash equivalents	(2,128)	368
Cash and cash equivalents, beginning of year	8,476	8,108
Cash and cash equivalents, end of year	\$ 6,348	\$ 8,476

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (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 subsidiary, Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both of these boards are independent from the Utility.

Yukon Energy Corporation is exempt from the Financial Administration Act (Yukon).

Rate Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the YUB pursuant to the *Public Utilities Act (Yukon)*. 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 or rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

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

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

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

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations - continued

Rate Regulation - continued

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

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.

2. Adoption of new accounting standards

Effective January 1, 2007, the Utility adopted the new CICA Handbook Sections 3855, Financial Instruments - Recognition and Measurement, Section 3861, Financial Instruments - Disclosure and Presentation, Section 1530 - Comprehensive Income, and Section 3865, Hedges. As required by the new standards, prior period results have not been restated. Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. Held-to-maturity financial assets and loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Held for trading and available for sale financial assets are measured at fair value. Financial liabilities are categorized as held for trading or other financial liabilities. Unrealized gains and losses on those assets categorized as available for sale are temporarily recorded in other comprehensive income until the gains or losses are realized.

The Utility has classified its financial instruments as follows:

Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Long-term debt	Other liabilities

Pursuant to section 3855.88(e)(ii) of the CICA handbook, the Utility elected to look at all contracts entered into after January 1, 2003 for embedded derivatives. No embedded derivatives were found.

Section 1530 requires the presentation of Comprehensive income, which consists of net income and Comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. After having determined that it had no other comprehensive income item to report in its financial statements, the Corporation has decided to comply with the new requirement in modifying the title of its Consolidated Statement of Operations which is now the Consolidated Statement of Income and Comprehensive Income and in modifying the line Net income for the year to become Net Income and Comprehensive income for the year. Section 3251 includes changes that correlate to section 1530. The adoption of section 1530 and of the correlative changes in section 3251 had no impact on opening retained earnings.

In adopting the new standard for financial instruments the Utility is required to adopt CICA Handbook Section 3865, Hedges. These standards do not have an impact on the financial statements because the Utility does not engage in the types of transactions addressed by this section.

3. 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.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Financial statement presentation - continued

The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiary, Yukon Energy Corporation. The consolidated financial statements reflect Canadian generally accepted accounting principles and practices of regulatory bodies. The regulatory accounting policies adopted may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in note 4. All significant inter-company transactions and balances have been eliminated on consolidation. Consequently, the significant accounting principles have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

The Utility capitalizes an allowance for funds used during construction ("AFUDC") at the weighted average cost of capital. 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.

Regulatory liabilities

Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate setting process.

Deferred uninsured losses

As a means of self-insurance, the Utility provides for 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. Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five years. Regulatory hearing costs that are approved by the Yukon Utilities Board are amortized over three years. The remaining amounts in hearing costs at year end are waiting for an approval term by the Yukon Utilities Board. Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the YUB.

Regulatory provision for future removal and site restoration costs

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

Deferred revenue

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

Diesel contingency fund

The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Rate regulated accounting policies - continued

Diesel contingency fund - continued

The Utility is required to file an annual report with the YUB on the fund's activity.

Generally accepted accounting principles ("GAAP")

The following policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles.

Cash equivalents

Cash equivalents represent short-term highly liquid investments and are carried at fair value.

Revenue recognition

All revenues for energy sales, including wholesale power sales, 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

Materials and supplies and diesel fuel are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Financial Information System	5 to 10 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Generally accepted accounting principles ("GAAP") - continued

Direct financing leases

Investments classified as current assets are carried at the lower of cost and market value. Other investments are carried at cost less a write-down, if necessary, for any impairment in value which is other than temporary.

Derivative financial instruments

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Corporation does not apply hedge accounting to its derivatives. Derivatives are recognized on the balance sheet upon issuance, and removed from the balance sheet when they expire or are terminated. Both on initial recognition and subsequently, each derivative is recognized as either an asset or a liability on the balance sheet at its fair value. Derivatives with a positive fair value are reported as derivative related amounts as a component of total assets. Derivatives with a negative fair value are reported as derivative related amounts as a component of liabilities. The change in the fair value of derivatives is recognized in income in the period in which it occurs.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers. These contributions are 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 income against amortization expense.

Deferred water licensing costs

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

Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. 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 plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations and employee pension obligations.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

Generally accepted accounting principles ("GAAP") - continued

Measurement uncertainty - continued

Actual results could differ by a significant amount from these estimates. Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in note 4.

Future Accounting Changes – Financial Instrument Disclosures and Capital Disclosures

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 3862 Financial Instruments – Disclosures; Section 3863 Financial Instruments – Presentation; and Section 1535 Capital Disclosures. These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Utility on January 1, 2008.

Sections 3862 and 3863 replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These sections are currently being assessed by management to determine the applicability and impact on the Utility's financial statements.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This section is expected to have limited impact on the Corporation's financial statements.

Section 3031 is a new recommendation for the measurement and disclosure of inventories. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value and on the cost formulas that are used to assign costs to inventories. The adoption of these recommendations is not expected to have a material impact on the earnings or assets of the Corporation.

Effective January 1, 2009 the CICA has removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measure on a basis other than in accordance with primary sources of GAAP. The Corporation is evaluating the possibility of using standards issued by the Financial Accounting Standards Board in the United States that allow for the recognition and measurement of rate regulated assets and liabilities as another source of Canadian GAAP. This section is currently being assessed by management to determine the impact on the Corporation's financial statements.

4. Financial statement effects of rate regulation

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

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

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2007	2006	Expected remaining recovery/settlement (years)	For 2007 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets				
Deferred charges (note 12), net book value				
Feasibility studies	\$ 2,319	\$ 2,999	1 to 5	\$ 680
Downsizing costs	24	71	1	47
Hearing costs	1,071	311	Indeterminate	(760)
Dam safety review	27	49	2	22
Diesel contingency fund (note 10)	856	821	Indeterminate	(35)
	4,297	4,251		(46)
Regulatory liabilities:				
Faro Mine dewatering deferral revenue (note 13)	1,191	1,483	Indeterminate	(292)
Deferred gain on fire insurance proceeds (note 14)	7,256	7,499	28	(243)
Deferred uninsured losses (note 11)	(463)	(500)	Indeterminate	37
Regulatory provision for future removal and site restoration costs	5,241	5,083	Indeterminate	158
Diesel contingency fund (note 10)	856	821	Indeterminate	35
	14,081	14,386		(305)
Net impact	\$ (9,784)	\$ (10,135)		\$ (351)

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

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been \$680,000 lower (2006 - \$1,501,000 higher expenses).

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been \$47,000 lower (2006 - \$48,000 lower expenses).

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005 and the Resource Plan Proceedings that were held for the Carmacks-Stewart Transmission Project in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility, and reimbursement of YUB and intervenor costs. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of \$933,000 over three years commencing January 1, 2005.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Hearing costs - continued

YUB Order 2007-9 directed the Utility to record the Resource Plan Proceeding costs in a Hearing Reserve Account. In the absence of rate regulation, expenses in 2007 would have been \$760,000 higher (2006 - \$311,000 lower expenses).

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been \$22,000 lower (2006 - \$40,000 lower expenses).

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB Order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2007 would have been higher by \$35,000 from interest earned on the DCF (2006 - \$30,000 higher net income).

Regulatory liabilities

(c) Faro Mine dewatering deferral revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also enables the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2007-2 set the approved 2007 revenue shortfall at \$292,000. 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 2007 would have been \$292,000 lower (2006 - \$292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board 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 current year net income in 2007 would have been lower by the amount of the amortization of \$270,000 (2006 - \$270,000 lower).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

(e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the provision for uninsured loss, and increase the annual provision from \$50,000 to \$100,000 for the years 2005 to 2007. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2007 would have been lower by \$37,000 (2006 - \$533,000 higher). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

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

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, the Utility has maintained a provision 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 provision 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. In the absence of rate regulation, GAAP would have required the Utility to reverse the provision to retained earnings in 2004. 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 2007 expense would have been lower by the amount of actual removal and site restoration costs incurred in the year of \$158,000 (2006 expenses - \$535,000 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 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 operation result of the year that they are incurred. In 2007, fuel expenses were deferred and consequently lower by \$72,000 (2006 - \$56,000 lower).

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 depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation 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.

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 charged to accumulated amortization and deferred and amortized over the expected life of the remaining pool of similar assets.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Other items affected by rate regulation - continued

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.

YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo-Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest-bearing deferred account for future review and disposition by the YUB.

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

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

5. Cash and cash equivalents

	2007	2006
Bank balance	\$ 6,348	\$ 8,333
Short-term investments	-	143
	\$ 6,348	\$ 8,476

Short-term investments are monies invested in a pooled money market fund. The short-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. The fair market value of these investments is equal to the carrying amount (note 22).

Yukon Energy Corporation also has a demand line of credit facility with its banker that allows the Utility to borrow up to \$10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government. At year end the Yukon Energy Corporation borrowed nil (2006 - nil) on the credit facility.

6. Accounts receivable

	2007	2006
Wholesale energy sales	\$ 2,853	\$ 2,764
Retail energy sales	824	1,071
Other	24	313
	\$ 3,701	\$ 4,148

The Utility's wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the YUB. Wholesale energy sales in 2007 were approximately \$18,402,000 (2006 - \$18,111,000).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

7. Direct financing leases

The Corporation's investments are summarized as follows:

	2007	2006
Direct financing leases	\$ 2,600	\$ 3,075
Less: current portion	583	475
	\$ 2,017	\$ 2,600

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. The investment was \$2,204,022 in 2007 (2006 - \$2,678,757). The monthly lease payments on the building are \$65,348.

In 2003, the Corporation financed an electric boiler system for the Yukon Hospital Corporation for a total cost of \$595,898. The repayment terms on this lease stipulate that one half of the energy cost savings resulting from the boiler usage during the year will be repaid against the investment. Interest on this investment is earned at the rate of 7.5% per annum and is recognized as finance income. The investment balance was \$395,898 in 2007 (2006 - \$395,898).

8. Trust assets

	2007	2006
Energy infrastructure investment	\$ 734	\$ 704

Energy infrastructure investment represents cash held in trust 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 equal offsetting liability is recorded in trust liabilities.

The amount is recorded at fair value.

9. Property, plant and equipment

	Cost	Accumulated Depreciation	2007 Net book Value	2006 Net book Value
Generation	\$ 138,983	\$ 49,066	\$ 89,917	\$ 91,525
Transmission	48,486	11,984	36,502	37,132
Buildings and other equipment	16,244	6,150	10,094	9,736
Distribution	15,360	5,358	10,002	9,482
Construction-in-progress	8,345	-	8,345	1,263
Transportation	2,556	748	1,808	1,391
Financial information system	1,303	1,303	-	3
Land and land rights	1,119	-	1,119	1,080
	\$ 232,396	\$ 74,609	\$ 157,787	\$ 151,612

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

10. Diesel contingency fund

	2007	2006
Balance, beginning of year	\$ 821	\$ 791
Interest	35	30
Balance, end of year	\$ 856	\$ 821

Diesel contingency funds are monies invested in a pooled money market fund. The short-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 2007 was 4.63% (2006 - 4.08%). The fair market value of these investments is equal to the carrying amount.

11. Deferred uninsured losses

	2007	2006
Balance, beginning of year	\$ (500)	\$ 33
Provision	100	100
Losses incurred		
Asset replacement	(63)	(633)
Balance, end of year	\$ (463)	\$ (500)

12. Deferred Charges

	Cost	Accumulated Amortization	2007 Net book Value	2006 Net book Value
Deferred water licensing costs	\$ 8,683	\$ 2,996	\$ 5,687	\$ 5,808
Feasibility studies and infrastructure planning	3,172	853	2,319	2,999
Regulatory Hearing costs	2,004	933	1,071	311
Downsizing costs	334	310	24	71
Dam safety review	213	186	27	49
Deferred financing costs	110	33	77	88
	\$ 14,516	\$ 5,311	\$ 9,205	\$ 9,326

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

13. Regulatory liabilities

	2007	2006
Faro Mine dewatering revenue		
Opening balance	1,483	1,775
Applied to revenue shortfall YUB Order 2005-17 (note 4)	(292)	(292)
Closing balance	1,191	1,483
	\$ 1,191	\$ 1,483

14. Deferred revenue

	2007	2006
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$3,606 (2006 - \$3,707))	\$ 7,256	\$ 7,499

15. Interest rate swap agreement

Interest rate swap agreements are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

The Corporation has entered into an interest rate swap agreement with The Toronto Dominion Bank to reduce its exposure to fluctuations in interest rates on a portion of its debt (note 16) by exchanging its interest payments calculated at a floating banker's acceptance discount rate (4.81% at December 29, 2007) for fixed payments calculated at 4.62%. The swap agreement originated on March 30, 2005 and matures on March 30, 2017 with quarterly net settlements. The notional amount of the interest rate swap, which is reset quarterly to match a portion of the principal on the debt, is \$6,552,000 as at December 31, 2007.

The fair market value of the swap agreement as at December 31, 2007 was (\$49,978), (2006 - (\$103,867)).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

16. Long-term debt

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

	2007	2006
The Toronto Dominion Bank		
\$11,400,000 term facility by way of banker's acceptances, at a variable interest rate which resets quarterly (banker's acceptance discount rate plus stamping fee as at December 31, 2007 of 4.82%). Principal drawdowns are quarterly with the balance due on March 30, 2017	\$ 9,062	\$ 9,890
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	7,804	8,442
Great West Life		
\$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of \$60,269 interest and principal with the final payment due July 2011	2,322	2,758
	19,188	21,090
Less current portion	1,987	1,911
	\$ 17,201	\$ 19,179

Mortgage payable

The mortgage is secured by land and buildings described in note 9.

Long-term debt repayment

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

2008	\$ 1,987
2009	2,125
2010	2,275
2011	2,437
2012	1,854
Thereafter	8,510
	\$ 19,188

Fair value

Fair value at December 31, 2007 of \$20,412,000 (2006 - \$22,777,000) for all long-term debt was estimated using discounted cash flows 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, 2007 (tabular amounts in thousands of dollars)

17. Contributions in aid of construction

	Cost	Accumulated Amortization	2007 Net book Value	2006 Net book Value
Contributions from customers since 1998	\$ 4,070	\$ 402	\$ 3,668	\$ 3,792
Pre - 1998 contributions	1,739	944	795	816
Government of Yukon contributions	2,530	671	1,859	1,478
	\$ 8,339	\$ 2,017	\$ 6,322	\$ 6,086

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

18. Pension costs and obligations

Yukon Energy Corporation, (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 5-year period

Annual cost of living increases to a maximum of 3.00% 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
- 5.0% of earnings in excess of 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, 2004 funding valuation and have been projected to December 31, 2007 in accordance with generally accepted actuarial standards.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

18. Pension costs and obligations - continued

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, 2007. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows: equities (51.0%; 2006 - 51.9%), fixed income securities (38.2%; 2006 - 38.3%); and real estate (10.8%; 2006 - 9.8%).

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

	2007	2006
Discount rate - accrued benefit obligation	5.50%	5.25%
Discount rate - benefit costs	5.25%	6.00%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	14 years
Benefit obligation determined by actuarial valuation	\$ 10,010	\$ 9,181
Fair value of plan assets	7,500	7,006
Plan deficit	\$ 2,510	\$ 2,175
Unrecognized amount		
transitional asset	169	186
net actuarial losses	(1,875)	(1,741)
Accrued benefit liability	\$ 804	\$ 620
Pension expense	\$ 493	\$ 506
Employer contributions	\$ 308	\$ 307
Employee contributions	\$ 113	\$ 115
Benefits paid	\$ 117	\$ 60

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$63,000 (2006-\$60,000) is included in accounts payable on the balance sheet.

Employees joining 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 to 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. In 2007 these were \$184,000 (2006 - \$149,000).

Total cash payments for employee future benefits for 2007, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$492,000 (2006 - \$456,000). As at December 31, 2007, the Utility's defined pension plan had 38 members (2006 - 40) and the RRSP had 41 members (2006 - 40 members).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

19. Contingencies

Mayo to Dawson City transmission line project

The Utility completed the construction of the Mayo to Dawson City transmission line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis.

Third party proceedings have been initiated by both the Utility and the general contractor against other consultants and subcontractors to the Project. Documents will be exchanged between all parties by July 14, 2008, and examinations for discovery will commence in the fall of 2008. The consolidated trial of all claims and third party claims is scheduled for 2010. To date, the Utility has insufficient information to assess the merits of the various claims.

20. Commitments

Power Purchase Agreement

On February 8, 2007, the Utility signed a Power Purchase Agreement (PPA) with Minto Explorations Limited (MEL). After review by the Yukon Utilities Board and due diligence by the Utility, the agreement was amended on May 14, 2007 and May 25, 2007, respectively.

Under the amended PPA (approved by the Yukon Utilities Board on Order 2007-6), the Utility agreed to construct a power line to the MEL mine site to deliver electricity from its grid for the mine's operation subject to various conditions to be met before the agreement could take full effect. The significant provisions include:

- a firm mine rate (as subsequently set out in OIC 2007/94),
- a low grade ore processing secondary energy rate,
- a minimum take-or-pay amount of \$12,000,000 to be paid by MEL within the first four years of service by the Utility,
- certain security to be provided to the Utility by MEL,
- a capital cost contribution by MEL to the Utility (for the full capital cost of the transmission line from Minto Landing to the mine site plus a contribution of \$7,200,000 towards the cost of the power line from Minto Landing to the existing grid at Carmacks),
- decommissioning costs to be paid to the Utility by MEL, and
- in consideration for assignment of four leased diesel generators with a combined continuous rating of 6.4 MW, YEC will pay MEL \$2,240,000 subject to certain conditions and adjustments.

The Utility has agreed in the PPA to finance MEL's capital contribution over seven years at an interest rate of 7.5% per annum, subject to conditions and potential adjustments, with MEL making payments annually.

The Corporation and the Utility have agreed on certain matters related to the MEL capital cost contribution, including YDC's agreement:

- to assume from the Utility the financing risk of the MEL capital cost contribution and
- to guarantee all capital cost payments by MEL to the Utility under the PPA, and
- to pay directly to the Utility any amount in excess of \$7,200,000 of the contribution required by MEL towards the cost of the power line from Minto Landing to the existing grid at Carmacks.

All conditions required for the PPA to take full effect were cleared or waived by December 17, 2007.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

20. Commitments - continued

Construction Commitments

During 2007, the Utility entered into major contracts with third parties related to project management, survey, clearing and construction necessary to deliver power to the Minto mine site and the community of Pelly Crossing. The total approved budget (including planning costs) is \$37,700,000 and the line is anticipated to be energized by September 30, 2008. By year end, the Utility had spent \$6,300,000 on the project, which is recorded in property, plant and equipment. The Corporation has contribution commitments from the Government of Yukon for \$10,450,000 to be received in the following year.

Project Agreement

On October 19 2007, the Utility signed a Project Agreement with the Northern Tutchone First Nations (NTFN). This agreement defines certain rights and obligations of the parties as they pertain to the Carmacks Stewart Transmission Project defined above. The Utility has granted the NTFN an option on certain terms and conditions to take over part or all of the financing being provided to the Minto Mine by the Utility in relation to the capital contribution made by the mine under the PFA agreement. The financing amount will be for all or part of the capital cost of the Mine Spur and the \$7,200,000 contribution to the main line. The option must be exercised prior to September 30, 2008 or such later date as to which the Utility agrees.

Aishihik Water License

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;
- a Heritage Mitigation Plan. The Utility spent approximately \$6,000 in 2006 on heritage projects, expects to spend up to \$30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
- annual fish monitoring programs.

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

Funding of Energy Solutions Centre Programs

As part of the transfer of operations of the Canada Yukon Energy Solutions Centre to the Department of Energy, Mines and Resources, Yukon Development Corporation has agreed to provide funding of \$400,000 per calendar year for 2006 and 2007 to be used for delivery of Energy Solutions Centre programs. This expense is recorded in administration on the statement of operations.

Rate Stabilization Fund

On March 30, 2007, the Yukon Government announced the continuation of the Rate Stabilization Fund from April 1, 2007 until July 1, 2007 with the Yukon Development Corporation required by OIC 2007/58. On June 30, 2007, the Rate Stabilization Fund was extended to June 30, 2008 required by OIC 2007/95.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2007 (tabular amounts in thousands of dollars)

21. Environmental liabilities

Yukon Energy 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 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. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

22. Risk management and financial instruments

The fair value of cash and cash equivalents, accounts receivable, restricted cash, diesel contingency fund, accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt and of interest rate swap agreements are described in notes 15 and 16 respectively. The Utility also has access to a \$10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

23. Non-consolidated financial information

The nature and size of operations of the Corporation and its subsidiary, Yukon Energy Corporation differ substantially. Audited financial statements of Yukon Energy Corporation for the year ended December 31, 2007 are also prepared.

24. Comparative figures

Certain 2006 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.