# YUKON DEVELOPMENT CORPORATION

## FINANCIAL STATEMENTS

December 31, 2008

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Yukon Development Corporation

## 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.

David Morrison
Chief Executive Officer

Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
March 13, 2009

# 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 31 December 2008 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these consolidated 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 31 December 2008 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 subsidiary and the consolidated financial statements are in agreement therewith. In addition, 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* of Yukon and regulations, the *Yukon Development Corporation Act* and regulations, the *Public Utilities Act* and regulations, the *Business Corporation Act*, and the articles and bylaws of the Corporation and its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
13 March 2009

## Yukon Development Corporation

### Consolidated Balance Sheet

| As at December 31, (in thousands of dollars) | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 686 | $ 6,348 |
| Accounts receivable (note 5) | 5,291 | 3,701 |
| Materials and supplies | 2,566 | 2,352 |
| Prepaid expenses | 278 | 186 |
| Current portion of direct financing leases (note 8) | 682 | 583 |
| | **9,503** | 13,170 |
| **Energy infrastructure fund** (note 6) | **760** | 734 |
| **Customer contribution financing** (note 7) | **14,991** | - |
| **Direct financing leases** (note 8) | **1,335** | 2,017 |
| **Property, plant and equipment** (note 9) | **190,633** | 157,787 |
| **Diesel contingency fund** (note 10) | **883** | 856 |
| **Deferred uninsured losses** (note 11) | **556** | 463 |
| **Deferred charges** (note 12) | **13,517** | 9,205 |
| | **$ 232,178** | $ 184,232 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 13) | $ 8,568 | $ 4,266 |
| Derivative related liability (note 26) | 1,397 | - |
| Current portion of long-term debt (note 16) | 3,738 | 1,987 |
| | **13,703** | 6,253 |
| **Faro Mine dewatering deferral revenue** (note 14) | **1,191** | 1,191 |
| **Long-term pension liability** (note 22) | **801** | 741 |
| **Deferred revenue** (note 15) | **6,999** | 7,256 |
| **Energy Infrastructure Fund** (note 6) | **760** | 734 |
| **Long-term debt** (note 16) | **29,936** | 17,201 |
| **Contributions in aid of construction** (note 17) | **32,960** | 6,322 |
| **Regulatory provision for future removal and site restoration costs** | **5,168** | 5,241 |
| **Diesel contingency fund** (note 10) | **883** | 856 |
| | **92,401** | 45,795 |
| **Equity** | | |
| **Contributed capital** | **41,501** | 41,501 |
| **Retained earnings** | **98,276** | 96,936 |
| | **139,777** | 138,437 |
| | **$ 232,178** | $ 184,232 |

**Commitments and Contingencies** (notes 24 and 25)
The accompanying notes are an integral part of the financial statements.

**Approved by the Board:**

**Chair** **Director**

## Yukon Development Corporation

### Consolidated Statement of Operations, Comprehensive Income and Retained Earnings

| For the year ended December 31, (in thousands of dollars) | 2008 | 2007 |
|---|---|---|
| **Revenue** | | |
| Sales of power (note 18) | $ 28,311 | $ 27,766 |
| Allowance for funds used during construction | 774 | 138 |
| Other income | 285 | 118 |
| Interest income | 257 | 415 |
| Finance income | 245 | 308 |
| | **29,872** | 28,745 |
| **Expenses** | | |
| Administration (note 19) | 7,841 | 7,399 |
| Operations and maintenance (note 20) | 6,760 | 5,599 |
| Amortization of property, plant and equipment | 5,140 | 4,728 |
| Interest on long-term debt | 1,229 | 1,390 |
| Amortization of deferred charges and water licensing costs | 948 | 1,119 |
| Provision for uninsured losses (note 11) | 50 | 100 |
| Programs | - | 426 |
| | **21,968** | 20,761 |
| **Net income before other items** | **7,904** | 7,984 |
| **Settlement of lawsuit** (note 23) | **(3,000)** | - |
| **Rate stabilization** (note 1) | **(2,167)** | (3,212) |
| **Unrealized loss on interest rate swaps** (note 26) | **(1,397)** | - |
| **Net income** | **1,340** | 4,772 |
| **Other comprehensive income** | - | - |
| **Comprehensive income** | **1,340** | 4,772 |
| **Retained earnings, beginning of year** | **96,936** | 92,164 |
| **Retained earnings, end of year** | $ **98,276** | $ 96,936 |

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) | 2008 | 2007 |
|---|---|---|
| **Operating activities** | | |
| Cash receipts from customers | $ 28,789 | $ 28,225 |
| Cash paid to employees and suppliers | (21,115) | (17,751) |
| Interest paid | (1,229) | (1,389) |
| Interest received | 502 | 723 |
| Cash provided by operating activities | **6,947** | 9,808 |
| **Financing activities** | | |
| Repayment of long-term debt | (1,936) | (1,902) |
| Proceeds from long-term debt | 16,081 | - |
| Contributions in aid of construction | 26,638 | 236 |
| Cash provided by (used in) financing activities | **40,783** | (1,666) |
| **Investing activities** | | |
| Addition to property, plant and equipment | (37,975) | (10,745) |
| Proceeds from investments | 583 | 475 |
| Increase in long-term receivable | (16,000) | - |
| Cash used in investing activities | **(53,392)** | (10,270) |
| **Net decrease in cash** | **(5,662)** | (2,128) |
| **Cash, beginning of year** | **6,348** | 8,476 |
| **Cash, end of year** | **$ 686** | $ 6,348 |

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

## 1. Nature of 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 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*. The Utility 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. The Utility is also exempt from the Financial Administration Act (Yukon).

**Rate Regulation**

The operations of the Utility are 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 reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

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

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent. In the second stage, the YUB approves how the revenue will be raised.

The second stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in Council 1995/90 and can include a cost-of-service study which allocates the overall Utility's cost of service to the various customer classes on the basis of appropriate costing principles. Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. The Utility filed a rate application on October 6, 2008 for the 2008 and 2009 forecast years.

### 1. Nature of Operations - continued

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

**Rate Stabilization Fund**
In May 2008, the Yukon Government authorized the continuation of the Rate Stabilization Fund (the "Fund") for one year at current levels, to July 1, 2009. The Fund provides subsidies to non-government residential, commercial and municipal customers. It was implemented in 1998 after the Faro mine closed to protect customers from significant bill increases that would have resulted from that shutdown. The total subsidy payments made by the Corporation during the current year were $2.1 million (2007 - $3.2 million)

### 2. Change in Accounting Policies

**Capital disclosures**
Effective January 1, 2008, the Corporation adopted the new CICA Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate how an entity manages its capital structure (i.e. debt, equity), its objectives, policies and processes for managing its capital, quantitative data about what the Corporation regards as capital and whether the Corporation has complied with any capital requirements and, if it has not complied, the consequence of such non-compliance. The additional disclosure is presented in note 27. As this section only addresses disclosure requirements, there is no impact on the Corporation's operating results.

**Financial Instruments - Disclosure and presentation**
Effective January 1, 2008, the Corporation adopted the new CICA Handbook Sections 3862, *Financial Instruments - Disclosures* and 3863, *Financial Instruments - Presentation*. These Sections require the disclosure of information with regards to the significance of financial instruments for the Corporation's financial position and operations, the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and how the Corporation manages those risks. These Sections replace CICA Handbook Section 3861 "Financial Instruments - Disclosure and Presentation". The additional disclosures required as a result of adopting these standards are included in note 26.

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

### 3. Significant accounting policies

**Financial Statement Presentation**
The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Yukon Development Corporation and its wholly owned subsidiary, Yukon Energy Corporation. All significant inter-company transactions and balances have been eliminated on consolidation.

3. **Significant accounting policies - continued**

The consolidated financial statements also reflect the regulatory policies adopted by the Utility which differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in note 4. Consequently, the significant accounting policies have been classified accordingly in the notes below:

**Rate regulated accounting policies adopted by the Utility**

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

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

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

**Deferred charges**
Deferred charges are recorded at cost less accumulated amortization.

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

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

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

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

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

December 31, 2008 (tabular amounts in thousands of dollars)

3. **Significant accounting policies - continued**

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

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

**Generally Accepted Accounting Principles ("GAAP") adopted by the Corporation and Utility**

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

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

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

| | |
|---|---|
| Generation | |
| Hydro-electric plants | 30 to 65 years |
| Diesel plants | 25 to 45 years |
| Wind turbines | 30 years |
| Transmission | 40 to 50 years |
| Distribution | 25 to 40 years |
| Buildings | 20 to 40 years |
| 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.

3. **Significant accounting policies - continued**

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

**Contributions in aid of construction**
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or Government. These contributions are deferred upon receipt and 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 operations 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. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

**Financial instruments**
Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes party to the contractual provisions of the instrument.

*Cash*
Cash is comprised of cash on hand and in bank accounts.

*Accounts receivable and long-term receivable*
Accounts receivable and the long-term receivable are measured at amortized cost less any impairment.

*Accounts payable and accrued liabilities*
Accounts payable and accrued liabilities are measured at amortized cost.

*Long-term debt*
Long-term debt is initially recognized at fair value. Subsequent to initial recognition, long-term debt is measured at amortized cost.

*Derivative financial instruments*
The Corporation enters into interest rate swaps to manage cash flow interest rate risk.

3. **Significant accounting policies - continued**

Interest rate swaps are recognized at fair value on the date a contract is entered into with unrealized gains and losses reported in earnings during the period of change. The Corporation does not apply hedge accounting to its derivatives.

*Fair value estimation*
The carrying value of the accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments.The fair value of the long-term receivable and the long-term debt is estimated by discounting the future cash flows using current rates for financial instruments subject to similar risks and maturities. The fair value of derivative financial instruments is estimated using market standard valuation techniques.

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

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

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

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

On February 13, 2008 the Canadian Accounting Standards Board of Canada confirmed the adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in place of Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011. The Corporation and the Utility are required to present their first set of published IFRS statements for the year ended December 31, 2011 with comparative information. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting standards and the Corporation and the Utility are currently assessing the impact of those differences.

To facilitate the conversion process, the Corporation and the Utility have appointed an external advisor and assembled a core project team. Project planning started with a high level diagnostic review of significant differences between IFRS and Canadian GAAP. Areas with significant differences that will impact the Corporation and the Utility include: Regulatory Accounting, Property, Plant & Equipment, Employee Benefits and the overall presentation of the consolidated financial statements.

**December 31, 2008** (tabular amounts in thousands of dollars)

### 3. Significant accounting policies - continued

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

### 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.

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

| | 2008 | 2007 | Expected remaining recovery/ settlement (years) | For 2008 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by: |
|---|---|---|---|---|
| Regulatory assets | | | | |
| Deferred charges (note 12), net book value | | | | |
| Feasibility studies and infrastructure planning | $ 5,787 | $ 2,319 | 1 to 10 | $ (3,468) |
| Deferred customer service costs | 764 | - | 12 | (764) |
| Downsizing costs | - | 24 | 0 | 24 |
| Hearing costs | 1,348 | 1,071 | Indeterminate | (277) |
| Dam safety review | 13 | 27 | 1 | 14 |
| Diesel contingency fund (note 10) | 883 | 856 | Indeterminate | (27) |
| | **8,795** | 4,297 | | (4,498) |
| Regulatory liabilities: | | | | |
| Faro Mine dewatering deferral revenue (note 14) | 1,191 | 1,191 | Indeterminate | - |
| Deferred revenue | 7,356 | 7,626 | 28 | (270) |
| Deferred uninsured losses (note 11) | (556) | (463) | Indeterminate | (93) |
| Regulatory provision for future removal and site restoration costs | 5,168 | 5,241 | Indeterminate | (73) |
| Diesel contingency fund (note 10) | 883 | 856 | Indeterminate | 27 |
| | **14,042** | 14,451 | | (409) |

December 31, 2008 (tabular amounts in thousands of dollars)

4. **Financial statement effects of rate regulation - continued**

| | 2008 | 2007 | Expected remaining recovery/ settlement (years) | For 2008 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by: |
|---|---|---|---|---|
| Net impact of assets and liabilities | $ (5,247) | $ (10,154) | | $ (4,907) |
| Impact of items through income statement | | | | |
| AFUDC | | | | (774) |
| Fuel Price Adjustment | | | | (179) |
| Total effect | | | | (5,860) |

### Regulatory assets

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

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

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

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

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

YUB Order 2007-9 directed the Utility to record the Resource Plan Proceeding costs in a Hearing Reserve Account and in the next GRA to include a proposal on how to dispense with the hearing reserve account. In the absence of rate regulation, expenses in 2008 would have been $277,000 higher (2007 - $760,000 higher expenses).

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

4. **Financial statement effects of rate regulation - continued**

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

**Regulatory liabilities**

**(c) Faro Mine dewatering deferral revenue**
As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also approves the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2007-2 set the approved 2007 revenue shortfall at $292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. In 2008 there were no amounts approved by the YUB for deferral (2007 revenue would have been $292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

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

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

**(f) Regulatory provision for future removal and site restoration costs**
Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the *Public Utilities Act*, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1, 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000.

4. **Financial statement effects of rate regulation - continued**

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2008 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $73,000 (2007 expenses - $158,000 lower). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

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

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operation result of the year that they are incurred. In 2008, fuel expenses were deferred and consequently lower by $179,000 (2007 - $72,000 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 amortized over future periods as part of the total cost of the related asset, based on the expectation that amortization expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. In the absence of rate regulation, revenue would be $774,000 lower (2007 - $138,000 lower).

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

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

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

December 31, 2008 (tabular amounts in thousands of dollars)

## 5. Accounts receivable

| | 2008 | 2007 |
|---|---|---|
| Wholesale energy sales | $ 2,773 | $ 2,853 |
| Retail energy sales | 1,161 | 824 |
| Customer contribution financing (note 7) | 1,009 | |
| Other | 348 | 24 |
| | **$ 5,291** | $ 3,701 |

## 6. Energy infrastructure fund

| | 2008 | 2007 |
|---|---|---|
| Energy infrastructure fund | $ **760** | $ 734 |

Energy infrastructure fund represents cash held by the 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. The amount is recorded at fair value.

## 7. Customer contribution financing

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility has agreed to finance the cost of assets built to serve the customer. Of the total financed cost, $8.881 million will be repaid with blended principal and interest payments over 7 years at 7.5% interest. The remainder of $7.2 million is also financed at 7.5% with interest only payments payable monthly for the first four years and the principal repaid with blended payments over the succeeding 3 years. At the direction of the Yukon Utilities Board, the collection risk on this instrument is borne by the Corporation. The amount receivable in 2009 is $1.009 million.

The fair value of the long-term receivable as at December 31, 2009 approximates its carrying value given the loan was entered into with an industrial customer on November 22, 2008 under normal market terms.

## 8. Direct financing leases

The Corporation's investments in direct financing leases are summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Direct financing leases | $ 2,017 | $ 2,600 |
| Less: current portion | 682 | 583 |
| | **$ 1,335** | $ 2,017 |

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.

December 31, 2008 (tabular amounts in thousands of dollars)

**8. Direct financing leases - continued**

The investment was $1,666,169 in 2008 (2007 -$2,204,022). 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 $350,884 in 2008 (2007 - $395,898).

**9. Property, plant and equipment**

| | Cost | Accumulated Amortization | **2008** Net Book Value | 2007 Net Book Value |
|---|---|---|---|---|
| Generation | $ 139,687 | $ 52,081 | $ 87,606 | $ 89,917 |
| Transmission | 77,873 | 13,138 | 64,735 | 36,502 |
| Buildings and other equipment | 16,723 | 6,371 | 10,352 | 10,094 |
| Distribution | 26,307 | 5,721 | 20,586 | 10,002 |
| Construction-in-progress | 4,340 | - | 4,340 | 8,345 |
| Transportation | 2,861 | 964 | 1,897 | 1,808 |
| Financial information system | 1,303 | 1,303 | - | - |
| Land and land rights | 1,117 | - | 1,117 | 1,119 |
| | **$ 270,211** | **$ 79,578** | **$ 190,633** | $ 157,787 |

**10. Diesel contingency fund**

| | **2008** | 2007 |
|---|---|---|
| Balance, beginning of year | $ 856 | $ 821 |
| Interest | 27 | 35 |
| Balance, end of year | **$ 883** | $ 856 |

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

December 31, 2008 (tabular amounts in thousands of dollars)

## 11. Deferred uninsured losses

| | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year | $ 463 | $ 500 |
| Provision | (50) | (100) |
| Losses incurred | | |
| Asset replacement | 143 | 63 |
| Balance, end of year | $ 556 | $ 463 |

## 12. Deferred charges

| | Cost | Accumulated Amortization | 2008 Net Book Value | 2007 Net Book Value |
|---|---|---|---|---|
| Deferred water licensing costs | $ 9,007 | $ 3,468 | $ 5,539 | $ 5,687 |
| Feasibility studies and infrastructure planning | 7,063 | 1,276 | 5,787 | 2,319 |
| Hearing costs | 2,330 | 982 | 1,348 | 1,071 |
| Deferred customer service costs | 769 | 5 | 764 | - |
| Downsizing costs | 334 | 334 | - | 24 |
| Dam safety review | 213 | 200 | 13 | 27 |
| Deferred financing costs | 110 | 44 | 66 | 77 |
| | $ 19,826 | $ 6,309 | $ 13,517 | $ 9,205 |

## 13. Accounts payable and accrued liabilities

| | 2008 | 2007 |
|---|---|---|
| Trade payables | $ 7,979 | $ 3,012 |
| Employee compensation | 434 | 368 |
| Other | 155 | 886 |
| | $ 8,568 | $ 4,266 |

December 31, 2008 (tabular amounts in thousands of dollars)

## 14. Faro Mine dewatering deferral revenue

| | 2008 | 2007 |
|---|---|---|
| Faro Mine dewatering deferral revenue | | |
| Opening balance | 1,191 | 1,483 |
| Applied to revenue shortfall | - | (292) |
| Closing balance | $ **1,191** | $ 1,191 |

## 15. Deferred revenue

| | 2008 | 2007 |
|---|---|---|
| Deferred gain on fire insurance proceeds - capital assets (net of accumulated amortization and adjustments of $3,889 (2007 - $3,606)) | $ **6,999** | $ 7,256 |

## 16. Long-term debt

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

| | 2008 | 2007 |
|---|---|---|
| **The Toronto Dominion Bank** The Corporation entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.92% per annum. Principal drawdowns are monthly with the balance due on December 27, 2017 | $ 16,059 | $ - |
| **The Toronto Dominion Bank** The Corporation entered into an interest rate swaps to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 4.82% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017 | 8,276 | 9,062 |
| **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 | 7,164 | 7,804 |
| **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 | 1,834 | 2,322 |

December 31, 2008 (tabular amounts in thousands of dollars)

16. **Long-term debt - continued**

| | 2008 | 2007 |
|---|---|---|
| **Carmacks Stewart First Nation liability**<br>Long-term liability payable to several First Nations related to the construction of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying instalments, due in 2028 | 341 | - |
| | **33,674** | 19,188 |
| Less current portion | 3,738 | 1,987 |
| | **$ 29,936** | $ 17,201 |

**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:

| | |
|---|---|
| 2009 | $ 3,738 |
| 2010 | 3,934 |
| 2011 | 4,144 |
| 2012 | 3,610 |
| 2013 | 3,772 |
| Thereafter | 14,476 |
| | **$ 33,674** |

**Fair value**
Fair value at December 31, 2008 of $34,234,000 (2007 - $20,412,000) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

17. **Contributions in aid of construction**

| | Cost | Accumulated Amortization | **2008** Net Book Value | 2007 Net Book Value |
|---|---|---|---|---|
| Contributions from customers since 1998 | $ 20,249 | $ 560 | $ 19,689 | $ 3,668 |
| Pre - 1998 contributions | 1,739 | 988 | 751 | 795 |
| Government of Yukon contributions | 13,280 | 760 | 12,520 | 1,859 |
| | **$ 35,268** | **$ 2,308** | **$ 32,960** | $ 6,322 |

December 31, 2008 (tabular amounts in thousands of dollars)

## 17. Contributions in aid of construction - continued

The sources of contributions from customers and the Government of Yukon received prior to 1998 were not recorded separately. During the year the Utility received $16 million from the Minto Mine and $10 million from the Yukon Government to fund the Carmacks Stewart Transmission Line.

## 18. Sales of power

| | 2008 | 2007 |
|---|---|---|
| Wholesale | $ 22,999 | $ 22,460 |
| General Service | 2,804 | 2,731 |
| Residential | 1,316 | 1,198 |
| Secondary Sales | 777 | 1,000 |
| Other | 86 | 377 |
| Industrial | 329 | - |
| | $ 28,311 | $ 27,766 |

## 19. Administration expenses

| | 2008 | 2007 |
|---|---|---|
| Wages and benefits | $ 3,879 | $ 3,440 |
| General office | 1,200 | 1,021 |
| Insurance and taxes | 1,028 | 1,081 |
| Training, recruitment and development | 608 | 465 |
| Information systems | 456 | 530 |
| Board of Directors | 279 | 188 |
| Environmental | 130 | 173 |
| Regulatory loss | 196 | 481 |
| Material management and contracting | 65 | 20 |
| | $ 7,841 | $ 7,399 |

December 31, 2008 (tabular amounts in thousands of dollars)

## 20. Operations and maintenance expenses

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

## 21. Related party transactions

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

The following table summarizes the related party transactions for the year:

| | 2008 | 2007 |
|---|---|---|
| Capital contributions from YG for Carmacks Stewart Transmission Line | $ 10,000 | $ - |
| Capital contributions from YG for Aishihik Hydro third turbine | 750 | - |
| Program contributions from YG for Fish Hatchery operation | 92 | 82 |

## 22. Pension costs and obligations

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

- years of pensionable service,
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest, and
- the average of the years' maximum pensionable earnings (CPP) 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 the year's maximum pensionable earnings to a maximum of $2,500 per year.

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

December 31, 2008 (tabular amounts in thousands of dollars)

## 22. Pension costs and obligations - continued

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

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2008. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows: equities - 45.1% (2007 - 51.0%), fixed income securities - 45.0% (2007 - 38.2%); and real estate - 9.9% (2007 - 10.8%).

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

| | | **2008** | | 2007 |
|---|---|---|---|---|
| Discount rate - accrued benefit obligation | | 6.25% | | 5.50% |
| Discount rate - benefit costs | | 5.25% | | 5.25% |
| Expected long-term rate of return on plan assets | | 6.50% | | 6.50% |
| Assumed rate of salary escalation | | 3.00% | | 3.00% |
| Assumed rate of pension indexing | | 2.50% | | 2.50% |
| Expected average remaining service period of active employees | | 12 years | | 12 years |
| Benefit obligation determined by actuarial valuation | $ | 9,583 | $ | 10,010 |
| Fair value of plan assets | | 6,589 | | 7,500 |
| Plan deficit | $ | 2,994 | $ | 2,510 |
| Unrecognized amount | | | | |
| - transitional asset | | 152 | | 169 |
| - net actuarial losses | | (2,213) | | (1,875) |
| Accrued benefit liability | $ | 933 | $ | 804 |

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

| | | **2008** | | 2007 |
|---|---|---|---|---|
| Current portion of accrued benefit liability | | 132 | | 63 |
| Long-term portion of accrued benefit liability | | 801 | | 741 |
| Accrued benefit liability | | 933 | | 804 |
| Pension expense | $ | 523 | $ | 493 |
| Employer contributions | $ | 394 | $ | 308 |
| Employee contributions | $ | 123 | $ | 113 |
| Benefits paid | $ | 154 | $ | 117 |

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

Employees joining after January 1, 2002 are not eligible to participate in the defined benefit plan.

**22. Pension costs and obligations - continue**

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. During 2008 these were $220,000 (2007 - $184,000).

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $614,000 (2007 - $492,000). As at December 31, 2008, the Utility's defined pension plan had 36 members (2007 - 38) and the RRSP had 45 members (2007 - 41).

**23. Legal settlement**

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

**24. Commitments**

**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 did not incur expenditures in 2008 on heritage projects and the amount to be expended in the future has not yet been determined; 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.

**Diesel Generator Purchase**

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

**25. Environmental liabilities**

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon.

**25. Environmental liabilities - continued**

The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

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

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

**26. Risk management and financial instruments**

At December 31, 2008, the Corporation's and Utility's financial instruments included cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities, long and short-term debt and interest rate swaps.

The Corporation has exposure to the following financial risks: interest rate risk, credit risk and liquidity risk. The Corporations' exposure to these risks arises primarily in relation to its long-term receivable and long-term debt, but also in relation to its other financial assets and liabilities.

The following presents information about the Corporation's exposure to each of the above risks, and how the Corporation manages those risks.

**Interest rate risk**
Interest rate risk is the risk that future cash flows or the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has debt for which variable and fixed interest rates apply. The Corporation has entered into interest rate swap agreements to mitigate its cash flow exposure to changes in interest rates on its variable debt. The Corporation is exposed to fair value risk due to changes in interest rates on its fixed rate debt, including the variable rate debt which has been converted from variable to fixed through the use of interest rate swap agreements.

As at December 31, 2008, the Corporation had two interest rate swap agreements in place with notional principal amounts of $16 million and $8 million. The agreements effectively change the Corporation's interest rate exposure on these notional amounts from floating rates to fixed rates of 2.92% and 4.82% respectively.

The fair value of the interest swap agreements at December 31, 2008 was a liability of $1.397 million. The interest rate swap agreements cover the notional debt amounts until 2017 at the fixed interest rates noted above. Fair values for interest rate swaps are provided by the financial institution with whom the swaps are held. During the year the Corporation paid $1.29 million of interest. (2007 - $1.389 million)

**Credit risk**
Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Corporation. Financial assets, which potentially subject the Corporation to concentrations of credit risk consist principally of cash, accounts receivable, long-term receivable and interest rate swaps. The maximum credit risk at December 31, 2008 is the fair value of these assets which totals $20.97 million.

Cash and interest rate swaps are placed with high credit quality financial institutions.

## 26. Risk management and financial instruments - continued

The Corporation's exposure to credit risk associated with its accounts receivable and the long-term receivable is the risk that the debtor or counterparty will not be able to pay amounts as they come due.

Accounts receivable are considered for impairment when they are past due or when objective evidence is received that a customer will default. Management has assessed that the credit risk for accounts receivable is minimal since its primary customer which makes up 50.4% of the accounts receivable at December 31, 2008, is a regulated utility which has had a history of positive cash flow and no impairment. (December 31, 2007 - 57.1%) Consistent with prior years there were no balances owing that are older than 90 days and thus the Corporation did not recognize an allowance for doubtful accounts. There is no history of impairment.

In order to minimize the credit risk on the long-term receivable, management obtained the security of assets for the loan and reviews the recoverable amount at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2008. Based on this analysis, management does not believe that the customer will default on any payments. As at December 31, 2008 management expected to collect the amount of the loan in its entirety.

**Liquidity risk**
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation through active management of the assets and liabilities and cash flows. At December 31, 2008, the Corporation's accounts payable and accrued liabilities had a carrying value of $8.7 million (2007: $4.3 million).

The Corporation had $17.5 million in undrawn credit facilities at its disposal to further reduce liquidity risk.

## 27. Capital management

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

*Corporation's Capital Management Policy*
The Corporation's policy is to minimize debt from operations to the maximum extent possible with available cash flows without impairing the working capital needs of the Corporation. The Corporation has no set debt to capital target, nor are there any loan agreements which impose any capital requirements on the Corporation.

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

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

The long-term debt owing by the Utility to the Yukon Development Corporation of $16 million that relates to the Transmission Line Construction Financing is not included in this calculation. This long-term debt is linked with the long-term receivable from the industrial customer.

December 31, 2008 (tabular amounts in thousands of dollars)

## 27. Capital management - continued

The Utility bears no risk in holding this debt so the amount was removed from this calculation.

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

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

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

## 28. 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, 2008 are also prepared.

## 29. Comparative figures

Certain 2007 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.