YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2009

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MANAGEMENT'S 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 the transactions coming to their notice have, in all significant respects, been in accordance with specified authorities. 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 12, 2010

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister Responsible for the Yukon Development Corporation

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

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. 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 Corporations 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
March 12, 2010

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)	2009	2008
Assets		
Current assets		
Cash	$ 17,167	$ 686
Accounts receivable (note 5)	9,180	5,291
Materials and supplies	2,758	2,566
Prepaid expenses	394	278
Current portion of direct financing leases (note 8)	760	682
	30,259	9,503
Energy infrastructure fund (note 6)	-	760
Customer contribution financing (note 7)	17,424	14,991
Direct financing leases (note 8)	575	1,335
Property, plant and equipment (note 9)	206,507	193,477
Diesel contingency fund (note 10)	887	883
Deferred uninsured losses (note 11)	111	556
Deferred charges (note 12)	13,506	10,673
	$ 269,269	$ 232,178
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	$ 6,668	$ 8,568
Construction financing (note 14)	25,000	-
Derivative related liability (note 25)	296	1,397
Current portion of long-term debt (note 16)	4,059	3,738
	36,023	13,703
Faro Mine dewatering deferral revenue (note 15)	397	1,191
Long-term pension liability (note 22)	1,036	801
Energy Infrastructure Fund (note 6)	-	760
Long-term debt (note 16)	30,926	29,936
Contributions in aid of construction (note 17)	46,258	39,959
Regulatory provision for future removal and site restoration costs	5,008	5,168
Diesel contingency fund (note 10)	887	883
	120,535	92,401
Equity		
Contributed capital	41,501	41,501
Retained earnings	107,233	98,276
	148,734	139,777
	$ 269,269	$ 232,178

Commitments and Contingencies (notes 23 and 24)

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)	**2009**	2008
Revenue		
Sales of power (note 18)	$ 31,321	$ 28,311
Government of Yukon - Interim electrical rebate program	1,427	-
Interest income	1,207	257
Allowance for funds used during construction	392	774
Other income	564	285
Finance income	174	245
	35,085	29,872
Expenses		
Administration (note 19)	8,263	7,841
Operations and maintenance (note 20)	7,597	6,760
Amortization of property, plant and equipment	5,061	5,140
Amortization of deferred charges and water licensing costs	2,146	948
Interest on long-term debt	1,550	1,229
Provision for uninsured losses (note 11)	150	50
	24,767	21,968
Net income before other items	**10,318**	7,904
Settlement of lawsuit	**-**	(3,000)
Rate stabilization/Interim electrical rebate program (note 1)	**(2,462)**	(2,167)
Unrealized gain (loss) on interest rate swaps (note 25)	**1,101**	(1,397)
Net income	**8,957**	1,340
Other comprehensive income	**-**	-
Comprehensive income	**8,957**	1,340
Retained earnings, beginning of year	**98,276**	96,936
Retained earnings, end of year	**$ 107,233**	$ 98,276

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)	**2009**	2008
Operating activities		
Cash receipts from customers	$ 31,614	$ 28,789
Cash paid to employees and suppliers	(20,789)	(15,855)
Interest paid	(1,550)	(1,229)
Interest received	1,381	502
Cash provided by operating activities	**10,656**	12,207
Financing activities		
Repayment of long-term debt	(3,689)	(1,936)
Proceeds from long-term debt	5,000	16,081
Proceeds from construction financing	25,000	-
Contributions in aid of construction	1,180	10,638
Cash provided by (used in) financing activities	**27,491**	24,783
Investing activities		
Addition to property, plant and equipment	(17,859)	(40,819)
Addition to deferred charges	(4,984)	(2,416)
Proceeds from investments	682	583
Proceeds from long-term receivable	495	-
Cash used in investing activities	**(21,666)**	(42,652)
Net increase (decrease) in cash	**16,481**	(5,662)
Cash, beginning of year	**686**	6,348
Cash, end of year	**$ 17,167**	$ 686

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

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

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

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

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

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

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was filed on October 6, 2008 for the 2008 and 2009 forecast years. The YUB released Order 2009-8 on September 8, 2009. This order gave the Utility direction on certain accounts for the 2008 and 2009 year.

1. Nature of Operations - continued

As the 2008 year was already completed the financial impact of the Order related to the 2008 year was accounted for through the 2009 year. The order resulted in a decrease of $404,000 of net income in the 2009 year.

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

Capital structure
The Utility's policy is to maintain a capital structure of 60% debt and 40% equity at year end. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

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 provided 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. Effective July 1, 2009 the Yukon Government introduced a new rate subsidy program called the Interim Electrical Rebate, which will be in effect until June 30, 2010. The rebate applies to non-government residential and municipal customers. The Yukon Government is providing funding for the Interim Electrical Rebate to a maximum of $3 million. In 2009, the Corporation received $1.427 million in funding for the program. The total subsidy payments made by the Corporation during the current year were $2.462 million (2008 - $2.167 million)

2. Accounting Changes

Rate regulation
Effective January 1, 2009, the Canadian Institute of Chartered Accountants (CICA) has removed the temporary exemption in Section 1100 Generally Accepted Accounting Principles, which provides relief to entities subject to rate regulation from the requirement to apply the section of the recognition and measurement of assets and liabilities arising from rate regulation. Canadian GAAP permits an entity to consult sources other than primary sources of GAAP to assist in selecting accounting policies. In particular, accounting standards published with the authority of the US Financial Accounting Standards Board (FASB). The Utility has consulted FASB and, more specifically, section SFAS 71 in regards to rate regulated accounting and the Utility meets the criteria set out by this section. The Utility will be following SFAS 71 for recording rate regulated assets and liabilities. The CICA continues to give direction on how to disclose rate regulated accounting and the Utility follows this direction. The adoption of this standard did not have an impact on the Utility's financial statements since the recognition standards under SFAS 71 are similar to previous Canadian GAAP.

Goodwill and intangible assets
Effective for years starting on or after October 1, 2008, the CICA has issued Section 3064 Goodwill and Intangible Assets which replaces Sections 3062 Goodwill and Other Intangible Assets and 3450 Research and Development. The new section is in alignment with International Financial Reporting Standards, International Accounting Standard 38 - Intangible Assets (IFRS IAS 38) with respect to the definition and initial recognition criteria of intangible assets, including internally generated intangible assets. Section 3064 reinforces the distinction between costs that should be expensed and those that should be capitalized. As a result of adopting Section 3064, the Utility classified $5,222,000 of deferred water licencing costs as an intangible.

2. Accounting Changes - continued

Credit risk and the fair value of financial assets and financial liabilities
In January 2009, the Emerging Issues Committee (EIC) of the CICA issued EIC Abstract 173 "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*" (EIC 173) which requires the consideration of the Corporation's own credit risk and the credit risk of the Corporation's counterparty when determining the fair value of financial assets and liabilities. The adoption of this new section was effective for the Corporation's financial statements for the year ended December 31, 2009 and did not have a significant impact on the Corporation's financial statements.

Financial instruments
In June 2009, the CICA amended Section 3862 "*Financial Instruments - Disclosures*" to include additional disclosure requirements regarding fair value measurements of financial instruments and enhanced liquidity risk disclosures. All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:
Level 1 - Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.
Level 2 - Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.
Level 3 - Financial instruments are considered level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Liquidity risk disclosure was also enhanced with the inclusion of a maturity analysis for derivative and non-derivative financial liabilities. The amendments were effective for the Corporation's financial statements for the year ended December 31, 2009. To provide relief for financial statement preparers, the CICA decided that comparative financial information for the new disclosures was not required in the first year of application. As the amendments only concern disclosure requirements, they do not have an impact on the results or financial position of the Corporation. The required disclosures are included in note 25.

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. 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 2009 (2008 - 7.61%). Upon retirement or disposal any gain or loss is charged to income in the current year for assets amortized on an individual basis, or charged to accumulated amortization for assets amortized on a pooled basis.

3. Significant accounting policies - continued

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 and infrastructure planning which did not result in a capital project are amortized over terms raging between five and ten years.

Deferred customer service costs are amortized over twelve years.

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

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

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

Diesel contingency fund
The Utility maintains an asset and an offsetting liability on behalf of ratepayers. The fund is used to reimburse 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.

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.

December 31, 2009 (tabular amounts in thousands of dollars)

3. Significant accounting policies - continued

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

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

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

Direct financing leases
Investments in direct finance leases are carried at the lower of cost and net realizable value.

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

3. Significant accounting policies - continued

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, amortization of past service benefits and plan enhancements, and actuarial gains and losses. Unrecognized gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

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, classified as loans and receivables, are initially measured at fair value. Subsequent to initial recognition, 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, classified as other financial liabilities, are measured at amortized cost.

Short and long-term debt
Short and long-term debt, classified as other financial liabilities, are initially recognized at fair value. Subsequent to initial recognition, short and long-term debt is measured at amortized cost.

Derivative financial instruments
Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Corporation has entered into interest rate swaps to manage interest rate risk. The Corporation's interest rate swaps are designated as held for trading and are thus recognized at fair value on the date the contract has been entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred.

Fair value estimation
The carrying value of the accounts receivable, 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 standard market valuation techniques and is provided to the Corporation by the financial institution that is the counterparty to the transactions.

3. Significant accounting policies - continued

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 as described in Note 24.

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, employee pension obligations and regulated assets and liabilities. 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

On February 13, 2008 the Canadian Accounting Standards Board 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.

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

To facilitate the conversion process, the Corporation has appointed an external advisor and assembled a core project team. Project planning started with a high level diagnostic review of significant differences between IFRS and Canadian GAAP. The second phase of the plan is the detailed analysis and design. This phase involves the detailed assessment, from an accounting, reporting and business perspective of the changes that will be caused by the conversion to IFRS. While all the effects of IFRS have not been fully determined, the Corporation has identified a number of key areas where it is likely to be impacted by changes in accounting policy. Areas with significant differences that will impact the Utility include: regulatory accounting, property, plant & equipment, employee benefits, impairment of assets and the overall presentation of the financial statements.

December 31, 2009 (tabular amounts in thousands of dollars)

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 on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

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

	2009	2008	Expected remaining recovery/ settlement (years)	For 2009 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets				
Deferred charges (note 12), net book value				
Feasibility studies and infrastructure planning	$ 6,455	$ 2,943	5 to 10	$ (3,512)
Deferred customer service costs	700	764	11	64
Hearing costs	1,074	1,348	2 to 45	274
Dam safety review	-	13	0	13
Deferred uninsured losses (note 11)	111	556	Indeterminate	32
Diesel contingency fund (note 10)	887	883	Indeterminate	(4)
	9,227	6,507		(3,133)
Regulatory liabilities:				
Faro Mine dewatering deferral revenue (note 15)	397	1,191	Indeterminate	(381)
Deferred insurance proceeds (note 17)	7,086	7,356	26	(270)
Regulatory provision for future removal and site restoration costs	5,008	5,168	Indeterminate	(160)
Diesel contingency fund (note 10)	887	883	Indeterminate	4
	13,378	14,598		(807)
Net impact of assets and liabilities	**$ (4,151)**	$ (8,091)		$ (3,940)
Impact of other items through income statement				
AFUDC				(392)
Fuel Price Adjustment				133
Total effect				(4,199)

Regulatory assets

(a) Deferred charges

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

4. Financial statement effects of rate regulation - continued

Feasibility studies and infrastructure planning

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

Deferred Customer Service Costs

The costs associated with negotiating terms of service with a new industrial customer. In the absence of rate regulation, expenses in 2009 would have been $64,000 lower. (2008 - $764,000 higher expenses)

Hearing costs

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

Dam safety review

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

(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. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB Order 1996-6, the Utility from time to time is required to transfer amounts to or from the fund it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's income and expenses in 2009 would have been higher by $4,000 from interest earned on the DCF (2008 - $27,000 higher income and expenses).

(c) Deferred uninsured losses

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

4. Financial statement effects of rate regulation - continued

Regulatory liabilities

(d) Faro Mine dewatering deferral revenue
As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service - Government rate so there will be no further increases to Faro Mine dewatering deferral revenue account. This order also approves the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2009-8 set the approved 2009 revenue shortfall at $381,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2009 would have been $381,000 lower. YUB Order 2009-8 also approved the Utility to offset $413,000 from this account to the Deferred uninsured losses account which did not have an effect on the income statement.

The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

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

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

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2009 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $160,000 (2008 expenses - $73,000 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

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

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating results of the year that they are incurred. In 2009, fuel expenses were deferred and consequently lower by $133,000 (2008 fuel expense higher by $179,000).

December 31, 2009 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is amortized over future periods as part of the total cost of the related asset, based on the expectation that amortization expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. In the absence of rate regulation, revenue would be $392,000 lower (2008 - $774,000 lower).

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement. The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

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. Accounts receivable

	2009	2008
Green Infrastructure funding	$ 3,200	$ -
Wholesale energy sales	2,761	2,773
Other	1,726	348
Retail energy sales	1,493	1,161
Customer contribution financing (note 7)	-	1,009
	$ 9,180	$ 5,291

6. Energy infrastructure fund

	2009	2008
Energy infrastructure fund	$ -	$ 760

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, which were finalized during the year and the funds were closed. An equal offsetting liability is recorded. The amount is recorded at fair value.

December 31, 2009 (tabular amounts in thousands of dollars)

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 transmission assets built to serve the customer. Initial financing started November 22, 2008, the date the transmission line came into service.

The financing is structured in two parts: a $7.2 million contribution towards the cost of the main line expansion and $10.8 million contribution for the cost of the 27 km spur line to the mine for a total of $18 million. The customer is obligated to make interest only payments on the outstanding debt until 2012. From 2012 to 2017, the customer is obligated to make blended principal and interest payments such that the debt is extinguished by November 2017. This repayment schedule is subject to verification of mine life based on assessment of available reserves.

At the direction of the YUB, the collection risk on this instrument is borne by YDC. Accordingly, YDC has loaned cash in an amount equal to this receivable at substantially the same terms. The Utility has recorded this loan as long term debt and, if the industrial customer defaults on their debt, the Utility is released from the obligation to re pay YDC. The fair value of the long term receivable as at December 31, 2009, is approximately $18.7 million.

8. Direct financing leases

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

	2009	2008
Direct financing leases	$ 1,335	$ 2,017
Less: current portion	760	682
	$ 575	$ 1,335

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 $1,056,807 in 2009 (2008 - $1,666,169). 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 $278,216 in 2009 (2008 - $350,884).

December 31, 2009 (tabular amounts in thousands of dollars)

9. Property, plant and equipment

	Cost	Accumulated Amortization	**2009** Net Book Value	2008 Net Book Value
Generation	$ 142,233	$ 54,554	$ 87,679	$ 87,606
Transmission	77,806	13,792	64,014	64,735
Buildings and other equipment	17,502	6,839	10,663	10,352
Distribution	26,982	7,023	19,959	20,586
Construction-in-progress	20,854	-	20,854	7,184
Transportation	3,369	1,148	2,221	1,897
Financial information system	1,303	1,303	-	-
Land and land rights	1,117	-	1,117	1,117
	$ 291,166	**$ 84,659**	**$ 206,507**	$ 193,477

10. Diesel contingency fund

	2009	2008
Balance, beginning of year	$ 883	$ 856
Interest	4	27
Balance, end of year	**$ 887**	$ 883

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

11. Deferred uninsured losses

	2009	2008
Balance, beginning of year	$ 556	$ 463
Provision	(150)	(50)
Transfer from Regulatory liabilities	(413)	-
Losses incurred		
Asset replacement	118	143
Balance, end of year	**$ 111**	$ 556

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

December 31, 2009 (tabular amounts in thousands of dollars)

12. Deferred charges

	Cost	Accumulated Amortization	**2009** Net Book Value	2008 Net Book Value
Deferred water licensing costs	$ 9,195	$ 3,973	$ 5,222	$ 5,539
Feasibility studies and infrastructure planning	8,274	1,819	6,455	2,943
Hearing costs	3,065	1,991	1,074	1,348
Deferred customer service costs	769	69	700	764
Dam safety review	213	213	-	13
Deferred financing costs	110	55	55	66
	$ 21,626	**$ 8,120**	**$ 13,506**	$ 10,673

13. Accounts payable and accrued liabilities

	2009	2008
Trade payables	$ 6,159	$ 7,979
Employee compensation	281	434
Other	228	155
	$ 6,668	$ 8,568

14. Construction financing

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

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

15. Faro Mine dewatering deferral revenue

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

December 31, 2009 (tabular amounts in thousands of dollars)

16. Long-term debt

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

	2009	2008
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 2.67% per annum. Principal drawdowns are monthly with the balance due on December 27, 2017	$ 14,490	$ 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 4.62% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017	7,412	8,276
TD Canada Trust $12,400,000 term note bearing interest at 7.81% payable in monthly installments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government	6,472	7,164
Tr'ondek Hwech'in First Nation liability Long-term liability payable to the First Nation related to the construction of the Carmacks Stewart Transmission Line. This loan is repayable in equal annual principal repayments of $125,000 with the final payment due in 2049. The interest rate is a blended rate based on the cost of debt and the actual rate of return earned by the Utility (6.604% - 2009)	5,000	-
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	1,290	1,834
Carmacks Stewart First Nation liability 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	321	341
	34,985	33,674
Less current portion	4,059	3,738
	$ 30,926	$ 29,936

December 31, 2009 (tabular amounts in thousands of dollars)

16. Long-term debt - continued

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:

2010	$	4,059
2011		4,269
2012		3,735
2013		3,897
2014		4,060
Thereafter		14,965
	$	**34,985**

Fair value
Fair value at December 31, 2009 of $35,639,000 (2008 - $34,234,000) 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	**2009** Net Book Value	2008 Net Book Value
Contributions from customers since 1998	$ 22,408	$ 1,841	$ 20,567	$ 19,689
Pre - 1998 contributions	1,739	1,031	708	751
Government of Yukon contributions	16,113	1,072	15,041	12,520
Government of Canada contributions	3,200	-	3,200	-
Deferred insurance proceeds	11,122	4,380	6,742	6,999
	$ 54,582	**$ 8,324**	**$ 46,258**	$ 39,959

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

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

December 31, 2009 (tabular amounts in thousands of dollars)

18. Sales of power

	2009	2008
Wholesale	$ 22,238	$ 22,999
General Service	3,007	2,804
Residential	1,380	1,316
Secondary Sales	1,442	777
Other	63	86
Industrial	3,191	329
	$ 31,321	$ 28,311

19. Administration expenses

	2009	2008
Wages and benefits	$ 4,108	$ 3,879
General office	1,223	1,200
Insurance and taxes	1,087	1,028
Training, recruitment and development	579	608
Information systems	776	456
Board of Directors	134	279
Environmental	237	130
Regulatory loss	65	196
Material management and contracting	54	65
	$ 8,263	$ 7,841

20. Operations and maintenance expenses

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

December 31, 2009 (tabular amounts in thousands of dollars)

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:

	2009	2008
Capital contributions from YG for Carmacks Stewart Transmission Line	$ -	$ 10,000
Contributions from YG for Interim Electrical Rebate program	1,427	-
Capital contributions from YG for Aishihik Hydro third turbine	2,833	750
Program contributions from YG for fish hatchery operations	92	92
Account receivable YG	210	92
Advance from YG	25,000	-

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.

An actuarial valuation for funding purposes was performed as of January 1, 2007 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2010. The pension costs and obligations were based on the data used in the January 1, 2007 funding valuation and have been projected to December 31, 2009 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2009. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows: equities - 51.4% (2008 - 45.1%), fixed income securities - 39.5% (2008 - 45.0%); and real estate - 9.1% (2008 - 9.9%).

December 31, 2009 (tabular amounts in thousands of dollars)

22. Pension costs and obligations - continued

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

	2009	2008
Discount rate - accrued benefit obligation	6.25%	6.25%
Discount rate - benefit costs	6.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.50%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	12 years
Benefit obligation determined by actuarial valuation	$ 10,491	$ 9,583
Fair value of plan assets	7,751	6,589
Plan deficit	$ 2,740	$ 2,994
Unrecognized amount		
- transitional asset	135	152
- net actuarial losses	(1,703)	(2,213)
Accrued benefit liability	$ 1,172	$ 933

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

	2009	2008
Current portion of accrued benefit liability	136	132
Long-term portion of accrued benefit liability	1,036	801
Accrued benefit liability	1,172	933
Pension expense	$ 584	$ 523
Employer contributions	$ 345	$ 394
Employee contributions	$ 112	$ 123
Benefits paid	$ 132	$ 154

The accrued benefit liability has been recorded by the Utility and its current portion of $136,000 (2008-$132,000) 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.

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 2009 these were $256,000 (2008 - $220,000).

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $601,000 (2008 - $614,000). As at December 31, 2009, the Utility's defined pension plan had 36 members (2008 - 36) and the RRSP had 49 members (2008 - 45).

23. 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 2009 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 2009, all conditions had not been met and it cannot be estimated at this time when all conditions will be met.

Contractual obligations

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

24. Environmental liabilities

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

The Utility has conducted environmental 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, 2009 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.

25. Risk management and financial instruments

At December 31, 2009, the Corporation's and Utility's financial instruments included cash, accounts receivable, short-term and long-term receivable, accounts payable and accrued liabilities, long and short-term debt and interest rate swaps.

25. Risk management and financial instruments - continued

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 rate 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, 2009, 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, 2009 was a liability of $.296 million. (2008 - $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. A 100 basis point decrease/increase in the interest rate assumption would have resulted in an increase/decrease in the interest swap agreements fair value of $718,980 and $761,509 respectively at December 31, 2009. During the year the Corporation paid $1.55 million of interest. (2008 - $1.29 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, 2009 is the fair value of these assets which totals $45.047 million (2008 - $20.968 million).

The credit risk related to cash and interest rate swaps is minimized as these assets are held with a Canadian chartered bank.

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 46.2% of the accounts receivable at December 31, 2009, is a regulated utility which has had a history of positive cash flow and no impairment. (December 31, 2008 - 50.4%) 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 unrecoverable amounts. Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2009. Based on this analysis, management does not believe that the customer will default on any payments. As at December 31, 2009 management expected to collect the amount of the loan in its entirety.

December 31, 2009 (tabular amounts in thousands of dollars)

25. Risk management and financial instruments - continued

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. The carrying amount of accounts payable, accrued liabilities, construction financing and short and long term debt represents the maximum exposure to liquidity risk. At December 31, 2009, the Corporation's accounts payable and accrued liabilities had a carrying value of $31.7 million (2008 - $8.7 million).

At December 31, 2009, the Corporation's short and long term debt had a carrying value of $34.985 million and $7.762 million is due in 2011, $21.902 million is due in 2017, $0.321 million due in 2028 and $5 million is due in 2049.

The Corporation had $17.5 million (2008 - $14.9 million) in undrawn credit facilities at its disposal to further reduce liquidity risk.

Fair values
The following table illustrates the fair value hierarchy of the Corporation's financial instruments as at December 31, 2009:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	$ 296	-	-	$ 296

26. 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 $17.424 million that relates to the Transmission Line Construction Financing is not included in this calculation. This long-term debt is linked with the long-term receivable from the industrial customer.

December 31, 2009 (tabular amounts in thousands of dollars)

26. 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)	**2009**	2008
Long-term debt due within one year	$ 3,783	$ 4,721
Long-term debt	105,355	102,753
Total debt	109,138	107,474
Less debt related to the Transmission Line Construction Financing	17,424	16,000
Total debt to include in the calculation	$ 91,714	$ 91,474
Share capital	$ 39,000	$ 39,000
Retained earnings	21,943	21,777
Total equity	60,943	60,777
Total capitalization	$ 152,657	$ 152,251
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.

27. 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, 2009 are also prepared.

28. Subsequent events

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

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

29. Comparative figures

Certain 2008 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.