

**YUKON DEVELOPMENT CORPORATION**  
**FINANCIAL STATEMENTS**  
December 31, 2010

This page intentionally left blank.

## 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.

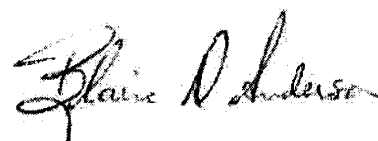
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified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



Elaine Anderson, C.A.  
Chief Financial Officer

Whitehorse, Yukon  
May 12, 2011



## INDEPENDENT AUDITOR'S REPORT

To the Minister Responsible for the Yukon Development Corporation

### Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Yukon Development Corporation, which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated statement of operations, comprehensive income and retained earnings and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinion*

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

### Report on Other Legal and Regulatory Requirements

As required by the *Yukon Development Corporation Act*, I report that, in my opinion, Canadian generally accepted accounting 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 Yukon Development Corporation and its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith. In addition, the transactions of Yukon Development Corporation and 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 Act* and regulations, the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations, and the articles and by-laws of Yukon Development Corporation and its wholly-owned subsidiary.

Sheila Fraser, FCA  
Auditor General of Canada

12 May 2011  
Vancouver, Canada

# Yukon Development Corporation

## Consolidated Balance Sheet

As at December 31, (in thousands of dollars)

2010

2009

### Assets

#### Current assets

Cash	\$ 32,731	\$ 17,167
Accounts receivable (note 5)	29,851	9,180
Materials and supplies	2,648	2,758
Prepaid expenses	368	394
Current portion of direct financing leases (note 7)	413	760

	66,011	30,259
Customer contribution financing (note 6)	17,424	17,424
Direct financing leases (note 7)	162	575
Diesel contingency fund (note 8)	891	887
Property, plant and equipment (note 9)	281,134	206,507
Deferred uninsured losses (note 10)	432	111
Deferred charges and intangible assets (note 11)	19,007	13,506
	\$ 385,061	\$ 269,269

### Liabilities

#### Current liabilities

Accounts payable and accrued liabilities (note 12)	\$ 17,335	\$ 6,668
Construction financing (note 13)	-	25,000
Derivative related liability (note 24)	435	296
Current portion of long-term debt (note 15)	4,270	4,059

	22,040	36,023
Faro Mine dewatering deferral revenue (note 14)	397	397
Long-term pension liability (note 21)	1,035	1,036
Long-term debt (note 15)	124,810	30,926
Contributions in aid of construction (note 16)	75,447	46,258
Regulatory provision for future removal and site restoration costs	4,764	5,008
Diesel contingency fund (note 8)	891	887
	229,384	120,535

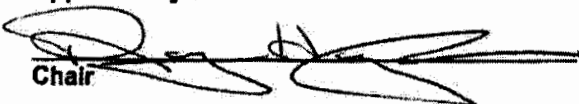
### Equity

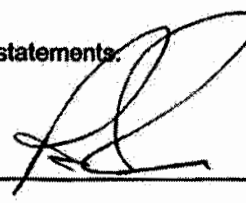
Contributed capital	41,501	41,501
Retained earnings	114,176	107,233
	155,677	148,734
	\$ 385,061	\$ 269,269

### Commitments and Contingencies (notes 22 and 23)

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)	2010	2009
<b>Revenue</b>		
Sales of power (note 17)	\$ 31,931	\$ 31,321
Government of Yukon - Interim electrical rebate program (note 1)	3,029	1,427
Interest income	1,544	1,207
Allowance for funds used during construction	514	392
Other income	214	564
Finance income	92	174
	<b>37,324</b>	<b>35,085</b>
<b>Expenses</b>		
Administration (note 18)	8,445	8,263
Operations and maintenance (note 19)	7,899	7,597
Amortization of property, plant and equipment	5,417	5,061
Interest on long-term debt	4,180	1,550
Amortization of deferred charges	871	1,641
Amortization of intangible assets	548	505
Provision for uninsured losses (note 10)	100	150
	<b>27,460</b>	<b>24,767</b>
<b>Net income before other items</b>	<b>9,864</b>	<b>10,318</b>
Interim electrical rebate program (note 1)	(2,782)	(2,462)
Unrealized gain (loss) on interest rate swaps (note 24)	(139)	1,101
<b>Net income</b>	<b>6,943</b>	<b>8,957</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income</b>	<b>6,943</b>	<b>8,957</b>
<b>Retained earnings, beginning of year</b>	<b>107,233</b>	<b>98,276</b>
<b>Retained earnings, end of year</b>	<b>\$ 114,176</b>	<b>\$ 107,233</b>

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

---

**Yukon Development Corporation****Consolidated Statement of Cash Flows**

---

<b>For the year ended December 31, (in thousands of dollars)</b>	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Cash receipts from customers	\$ 34,060	\$ 31,614
Cash paid to employees and suppliers	(9,293)	(20,789)
Interest paid	(4,180)	(1,550)
Interest received	1,636	1,381
<b>Cash provided by operating activities</b>	<b>22,223</b>	<b>10,656</b>
<b>Financing activities</b>		
Repayment of long-term debt	(4,388)	(3,689)
Proceeds from long-term debt	98,169	5,000
Proceeds from (repayment of) construction financing	(25,000)	25,000
Contributions in aid of construction	9,632	1,180
<b>Cash provided by financing activities</b>	<b>78,413</b>	<b>27,491</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(79,460)	(17,859)
Additions to deferred charges	(6,372)	(4,984)
Proceeds from investments	760	682
Proceeds from long-term receivable	-	495
<b>Cash used in investing activities</b>	<b>(85,072)</b>	<b>(21,666)</b>
<b>Net increase in cash</b>	<b>15,564</b>	<b>16,481</b>
<b>Cash, beginning of year</b>	<b>17,167</b>	<b>686</b>
<b>Cash, end of year</b>	<b>\$ 32,731</b>	<b>\$ 17,167</b>

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

---

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

### 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 generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both of these boards are independent from the Utility. 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 for the 2008 and 2009 years.



---

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

### 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.

#### 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.

#### Interim Electrical Rebate program

In June 2010, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for nine months at current levels, to March 31, 2011. The rebate provides subsidies to non-government residential 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 Yukon Government is providing funding for the rebate to a maximum of \$3 million per year. In 2010, the Corporation received \$3.029 million (2009 - \$1.427 million) in funding for the program. The total subsidy payments made by the Corporation during the current year were \$2.782 million (2009 - \$2.462 million).

### 2. Accounting Changes

#### Future accounting changes

On February 13, 2008, the Canadian Accounting Standards Board of Canada (AcSB) 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 IASB has undertaken a project to review and assess accounting for rate regulated assets and liabilities. The timeline for completion of this project is not currently known. On September 10, 2010 the AcSB approved an option to defer conversion to IFRS for one year for rate-regulated entities. The Utility has opted to take this deferral option and will therefore continue to prepare financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook up to the period ending on December 31, 2011. The deferral also applies to the consolidated financial statements of parents of qualifying entities with rate-regulated activities.

The Utility will continue to assess the IASB's deliberations on the project. At the same time, management is currently assessing whether any of our regulatory assets and liabilities may qualify for recognition under the current IFRS accounting framework. If rate-regulated accounting is not permitted and none of our regulatory assets and liabilities met the criteria for recognition under the current IFRS accounting framework, the write-off of our regulatory assets and liabilities would result in a net reduction to retained earnings of approximately \$2.741 million as at December 31, 2010 (note 4). Rate regulated accounting affects the timing of the accounting recognition of costs, revenues, losses and gains. Therefore, to the extent that we may be unable to recognize regulatory assets and liabilities after implementing IFRS in 2012, our statement of operations may be impacted by a change in the timing of recognition of these amounts in our statement of operations.

### 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 3. Significant accounting policies - continued

##### Financial statement presentation - continued

All significant inter-company transactions and balances have been eliminated on consolidation.

The consolidated financial statements also reflect the rate regulated accounting 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. The impact on the financial statements of accounting for rate regulated operations are further described in note 4. 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 7.09% for 2010 (2009 - 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.

###### 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. The YUB has sole discretion to direct disposition of these funds, typically through refunds to customers or applied to ratepayer deficits.

###### 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 ranging between five and ten years.

IFRS costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

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 10 to 45 years.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 3. Significant accounting policies - continued

##### 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.

##### 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.

---

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

### 3. Significant accounting policies - continued

#### Asset retirement obligations - continued

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.

#### 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 9 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 3. Significant accounting policies - continued

##### **Financial Instruments - continued**

##### *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.

##### *Transaction costs*

Transaction costs are presented as a reduction from the carrying value of the related debt and are amortized using the effective interest rate method over the terms of the debts to which they relate. Transaction costs include fees paid to agents, brokers and advisors but exclude debt discounts and direct financing costs.

##### *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.

##### **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 23.

##### **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 rate 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.

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

December 31, 2010 (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 \$7,295,000 in 2010 (2009 - decreased by \$4,199,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2010	2009	Expected remaining recovery/settlement (years)	For 2010 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
<b>Regulatory assets</b>				
Deferred charges (note 11), net book value				
Feasibility studies and infrastructure planning	\$ 11,463	\$ 6,200	5 to 10	\$ (5,263)
Deferred customer service costs	635	700	10	65
Hearing costs	1,835	1,074	10 to 45	(561)
Dam safety review	119	-	5	(119)
IFRS planning	434	255	Indeterminate	(179)
Deferred uninsured losses (note 10)	432	111	Indeterminate	(321)
Diesel contingency fund (note 8)	891	887	Indeterminate	(4)
	<b>15,609</b>	<b>9,227</b>		<b>(6,382)</b>
<b>Regulatory liabilities:</b>				
Faro Mine dewatering deferral revenue (note 14)	397	397	Indeterminate	-
Deferred insurance proceeds (note 16)	6,816	7,088	25	(270)
Regulatory provision for future removal and site restoration costs	4,764	5,008	Indeterminate	(244)
Diesel contingency fund (note 8)	891	887	Indeterminate	4
	<b>12,868</b>	<b>13,378</b>		<b>(510)</b>
Net impact of assets and liabilities	\$ 2,741	\$ (4,151)		\$ (6,892)
Impact of other items through income statement				
AFUDC				(514)
Fuel Price Adjustment				111
Total effect				<b>(7,295)</b>

### 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 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 2010 would have been \$5,263,000 higher (2009 - \$3,512,000 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 2010 would have been \$65,000 lower. (2009 - \$64,000 lower expenses)

##### **Hearing costs**

These costs are associated with the YUB regulatory proceedings. The costs consist primarily of various rate and project review proceedings. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2010 would have been \$561,000 higher. (2009 - \$274,000 lower expenses)

##### **Dam safety review**

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB 2009-8. In the absence of rate regulation, expenses in 2010 would have been \$119,000 higher (2009 - \$13,000 lower expenses).

##### **IFRS planning**

These costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards. In the absence of rate regulation, expenses in 2010 would have been \$179,000 higher. (2009 - \$255,000 higher expenses)

##### **(b) Diesel contingency fund**

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as 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 (2009 - \$4,000 higher income and expenses).

##### **(c) Deferred uninsured losses**

The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account 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 record an annual provision of \$100,000 in 2010 and each subsequent year.

---

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

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

#### (c) Deferred uninsured losses - continued

In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2010 would have been higher by \$321,000 (2009 - \$32,000 lower expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

#### 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.

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 2010 would have been lower by the amount of the amortization of \$270,000 (2009 - \$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 2010 expenses would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$244,000 (2009 expenses - \$160,000 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 2010, fuel expenses were deferred and consequently lower by \$111,000 (2009 fuel expense lower by \$133,000).



---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (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 \$514,000 lower (2009 - \$392,000 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

	2010	2009
Green Infrastructure funding	\$ 22,757	\$ 3,200
Wholesale energy sales	3,015	2,761
Retail energy sales	2,940	1,493
Other	1,139	1,726
	<b>\$ 29,851</b>	<b>\$ 9,180</b>

#### 6. 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 6. Customer contribution financing - continued

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 the Utility 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 repay YDC. Subsequent to year end this financing has been paid in full (see note 27). The fair value of the long term receivable as at December 31, 2010 is approximately \$19 million (2009 - \$18.7 million)

#### 7. Direct financing leases

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

	2010	2009
Direct financing leases	\$ 575	\$ 1,335
Less: current portion	413	760
	\$ 162	\$ 575

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 balance was \$366,428 in 2010 (2009 - \$1,056,807). 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 \$208,216 in 2010 (2009 - \$278,216).

#### 8. Diesel contingency fund

	2010	2009
Balance, beginning of year	\$ 887	\$ 883
Interest	4	4
Balance, end of year	\$ 891	\$ 887

The annual return on investment for 2010 was 0.50% (2009 - 0.45%). The fair market value of these investments is equal to the carrying amount due to the short term maturity of the investments.

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

December 31, 2010 (tabular amounts in thousands of dollars)

#### 9. Property, plant and equipment

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Generation	\$ 148,508	\$ 57,248	\$ 91,260	\$ 87,679
Transmission	78,802	15,328	63,476	64,014
Buildings and other equipment	18,802	7,426	11,376	10,663
Distribution	27,422	8,303	19,119	19,959
Construction-in-progress	91,851	-	91,851	20,854
Transportation	4,302	1,367	2,935	2,221
Financial information system	1,303	1,303	-	-
Land and land rights	1,117	-	1,117	1,117
	<b>\$ 372,107</b>	<b>\$ 90,973</b>	<b>\$ 281,134</b>	<b>\$ 206,507</b>

Included in construction-in-progress is \$49.5 million for Mayo B and \$28.0 million for Carmacks Stewart Phase 2 projects.

#### 10. Deferred uninsured losses

	2010	2009
Balance, beginning of year	\$ 111	\$ 558
Provision	(100)	(150)
Transfer from Regulatory liabilities (note 14)	-	(413)
Losses incurred		
Asset replacement	421	118
Balance, end of year	<b>\$ 432</b>	<b>\$ 111</b>

YUB Order 2009-8 directed the Utility to charge \$100,000 to this provision starting in 2010.

#### 11. Deferred charges and intangible assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Intangible assets:				
Deferred water licensing costs	\$ 9,198	\$ 4,521	\$ 4,677	\$ 5,222
Deferred charges:				
Feasibility studies and infrastructure planning	13,900	2,437	11,463	6,200
IFRS planning	434	-	434	255
Hearing costs	3,804	2,169	1,635	1,074
Deferred customer service costs	769	134	635	700
Dam safety review	332	213	119	-
Deferred financing costs	110	66	44	55
	<b>\$ 28,547</b>	<b>\$ 9,540</b>	<b>\$ 19,007</b>	<b>\$ 13,506</b>

---

**Yukon Development Corporation****Notes to Consolidated Financial Statements**

---

**December 31, 2010 (tabular amounts in thousands of dollars)**

---

**12. Accounts payable and accrued liabilities**

	2010	2009
Trade payables	\$ 16,869	\$ 6,159
Employee compensation	428	281
Other	38	228
	<b>\$ 17,335</b>	<b>\$ 6,668</b>

**13. Construction financing**

	2010	2009
Short-term 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 projects. This funding was for an initial term of six months with an option to extend for an additional three months and was fully repaid during the year.

**14. Faro Mine dewatering deferral revenue**

	2010	2009
Faro Mine dewatering deferral revenue account		
Opening balance	\$ 397	\$ 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	<b>\$ 397</b>	<b>\$ 397</b>

# Yukon Development Corporation

## Notes to Consolidated Financial Statements

December 31, 2010 (tabular amounts in thousands of dollars)

### 15. Long-term debt

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

	2010	2009
<b>Bond</b>		
The Corporation issued a bond at a fixed interest rate of 5.0% per annum. Interest is payable semi-annually. Principal payment is due when the bond expires on June 29, 2040.	\$ 98,169	\$ -
<b>The Toronto Dominion Bank</b>		
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.	12,849	14,490
<b>The Toronto Dominion Bank</b>		
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.	6,481	7,412
<b>TD Canada Trust</b>		
\$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, 2016. The note is guaranteed by the Yukon Government.	5,724	6,472
<b>Tr'ondek Hwech'in First Nation liability</b>		
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 at 7.096% is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	4,875	5,000
<b>Great West Life</b>		
\$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of \$60,269 interest and principal with final payment due July 2011. The mortgage is secured by land and buildings.	681	1,290
<b>Carmacks Stewart First Nation liability</b>		
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.	301	321
<b>Total</b>	<b>\$ 129,080</b>	<b>\$ 34,985</b>

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

December 31, 2010 (tabular amounts in thousands of dollars)

#### 15. Long-term debt - continued

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

	2010	2009
Total - balance forward	\$ 129,080	\$ 34,985
Less current portion	4,270	4,059
	\$ 124,810	\$ 30,926

#### Long-term debt repayment

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

2011	\$ 4,270
2012	3,735
2013	3,897
2014	4,059
2015	4,235
Thereafter	108,884
	\$ 129,080

#### Fair value

Fair value at December 31, 2010 of \$133 million (2009 - \$36 million) 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.

#### Bond

The Corporation issued a bond during the year for the face value of \$100 million. The interest rate is 5% and the bond matures June 29, 2040. There are no principal payments due until the bond matures and interest is payable semi annually. The bond was issued at a discount of \$0.7 million which will be amortized over the period of the related debt using the effective interest rate. Transaction costs were \$1.2 million and includes fees paid to agents and advisors and are presented as a reduction from the carrying value of the related debt and are amortized over the period of the related debt using the effective interest rate.

#### 16. Contributions in aid of construction

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Contributions from customers since 1998	\$ 22,921	\$ 3,017	\$ 19,904	\$ 20,567
Pre - 1998 contributions	1,739	1,075	664	708
Government of Yukon contributions	17,030	1,384	15,646	15,041
Government of Canada contributions	32,747	-	32,747	3,200
Deferred insurance proceeds	11,122	4,636	6,486	6,742
	\$ 85,559	\$ 10,112	\$ 75,447	\$ 46,258

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 16. Contributions in aid of construction - continued

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

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.

#### 17. Sales of power

	2010	2009
Wholesale	\$ 23,301	\$ 22,238
General Service	3,315	3,007
Industrial	3,311	3,191
Residential	1,277	1,380
Secondary Sales	644	1,442
Other	83	63
	<b>\$ 31,931</b>	<b>\$ 31,321</b>

#### 18. Administration expenses

	2010	2009
Wages and benefits	\$ 4,204	\$ 4,108
General office	1,155	1,223
Insurance and taxes	1,090	1,087
Information systems	733	776
Training, recruitment and development	570	579
Environmental	298	237
Board of Directors	256	134
Material management and contracting	81	54
Regulatory loss	58	65
	<b>\$ 8,445</b>	<b>\$ 8,263</b>

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 19. Operations and maintenance expenses

	2010	2009
Wages and benefits	\$ 3,923	\$ 3,939
Maintenance		
- hydro, diesel and wind	1,031	762
- building and vehicle	1,011	1,002
- lines and substations	587	869
Fuel	1,189	870
Water level measurement	158	155
	<b>\$ 7,899</b>	<b>\$ 7,597</b>

#### 20. 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:

	2010	2009
Contributions from YG for Interim Electrical Rebate program	\$ 3,029	\$ 1,427
Capital contributions from YG for Aishihik Hydro third turbine	917	2,833
Program contributions from YG for fish hatchery operations	109	92
Account receivable YG	152	210
Advance from YG	-	25,000

#### 21. 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

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



## Yukon Development Corporation

### Notes to Consolidated Financial Statements

December 31, 2010 (tabular amounts in thousands of dollars)

#### 21. Pension costs and obligations - continued

An actuarial valuation for funding purposes was performed as of January 1, 2010 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2013. The pension costs and obligations were based on the data used in the January 1, 2010 funding valuation and have been projected to December 31, 2010 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, 2010. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows: equities - 53.1% (2009 - 51.4%), fixed income securities - 37.9% (2009 - 39.5%); and real estate - 9.0% (2009 - 9.1%).

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

	2010	2009
Discount rate - accrued benefit obligation	5.75%	6.25%
Discount rate - benefit costs	6.25%	6.25%
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	2.00%	2.50%
Expected average remaining service period of active employees	9 years	12 years
Benefit obligation determined by actuarial valuation	\$ 11,100	\$ 10,491
Fair value of plan assets	8,902	7,751
Plan deficit	\$ 2,198	\$ 2,740
Unrecognized amount		
- transitional asset	119	135
- net actuarial losses	(1,143)	(1,703)
Accrued benefit liability	\$ 1,174	\$ 1,172
	2010	2009
Current portion of accrued benefit liability	139	136
Long-term portion of accrued benefit liability	1,035	1,036
Accrued benefit liability	1,174	1,172
Pension expense	\$ 507	\$ 584
Employer contributions	\$ 392	\$ 345
Employee contributions	\$ 121	\$ 112
Benefits paid	\$ 132	\$ 132

The accrued benefit liability has been recorded by the Utility and its current portion of \$139,000 (2009 - \$136,000) 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 21. Pension costs and obligations - continued

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 2010 these were \$289,000 (2009 - \$256,000).

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$681,000 (2009 - \$601,000). As at December 31, 2010, the Utility's defined pension plan had 39 members (2009 - 39) and the RRSP had 56 members (2009 - 49).

#### 22. 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;
- Heritage Mitigation Plan. The Utility did not incur expenditures in 2010 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.

##### **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 2010 as the product or service had not been provided. The commitment at year end is \$89,963,000. (2009 - \$9,010,000).

#### 23. 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, 2010 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 24. Risk management and financial instruments

At December 31, 2010, 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.

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, 2010, 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 rate swap agreements at December 31, 2010 was a liability of \$435,000. (2009 - \$296,000). 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 \$595,876 and \$566,215 respectively at December 31, 2010. During the year the Corporation paid \$4.18 million of interest. (2009 - \$1.55 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, 2010 is the fair value of these assets which totals \$80.581 million (2009 - \$45.047 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 10.1% (2009 - 46.2%) of the accounts receivable at December 31, 2010, is a regulated utility which has had a history of positive cash flow and no impairment and 76.2% of accounts receivable balance is due from the Government of Canada. 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 24. Risk management and financial instruments - continued

##### Credit risk - continued

Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2010. Based on this analysis, management expected to collect the amount of the loan in its entirety. Subsequent to year end this financing has been paid in full (see note 27).

##### 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, 2010, the Corporation's accounts payable and accrued liabilities had a carrying value of \$17.3 million (2009 - \$31.7 million).

At December 31, 2010, the Corporation's short and long term debt had a carrying value of \$129.08 million (2009 - \$34.985 million) and \$0.681 million is due in 2011 (2009 - \$7.762 million), \$5.724 million is due in 2016 (2009 - nil), \$19.33 million is due in 2017 (2009 - \$21.902 million), \$0.301 million due in 2028 (2009 - \$0.301 million), \$98,169 million due in 2040 (2009 - nil) and \$4.875 million is due in 2049 (2009 - \$5 million).

The Corporation had \$17.5 million (2009 - \$17.5 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, 2010:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related liability	-	\$ 435	-	\$ 435

The fair value of the derivative related liability in 2009 was \$296,000 and was classified as level 2.

#### 25. 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.

---

## Yukon Development Corporation

### Notes to Consolidated Financial Statements

---

December 31, 2010 (tabular amounts in thousands of dollars)

---

#### 25. Capital management - continued

Short term debt related to assets under construction at the balance sheet date is excluded from the debt calculation, as the assets are similarly excluded from the determination of rate base until placed into service. 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 an industrial customer. 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)	2010	2009
Long-term debt due within one year	\$ 3,864	\$ 3,783
Long-term debt	101,449	105,355
Total debt	105,313	109,138
Less debt related to the Transmission Line Construction Financing	17,424	17,424
Total debt to include in the calculation	\$ 87,889	\$ 91,714
Share capital	\$ 39,000	\$ 39,000
Retained earnings	26,720	21,943
Total equity	65,720	60,943
Total capitalization	\$ 153,609	\$ 152,657
Total debt to total capitalization	57 %	60 %

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

#### 26. 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, 2010 are also prepared.

#### 27. Subsequent events

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility had agreed to finance the cost of transmission assets built to serve the customer. On January 19, 2011 this financing of \$17.4 million was paid in full by the industrial customer.

---

## **Yukon Development Corporation**

### **Notes to Consolidated Financial Statements**

---

**December 31, 2010** (tabular amounts in thousands of dollars)

---

**27. Subsequent events - continued**

The Corporation and the Government of Yukon signed a Memorandum of Understanding for the accounting period starting April 1, 2011 to March 31, 2042 regarding the Mayo B and Carmacks-Stewart Transmission line Projects. The Government of Yukon will assist in funding the repayment of a portion of the bond interest costs of up to \$2.625 million annually, subject to the Corporation meeting specified terms set out in the agreement.

**28. Comparative figures**

Certain 2009 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.