

YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2004

(audited)

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation and its wholly-owned subsidiaries. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.

A handwritten signature in black ink, appearing to read "D Morrison", with a checkmark at the end.

David Morrison
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Blaine Anderson", written in a cursive style.

Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
April 22, 2005



AUDITOR'S REPORT

To the Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2004 and the consolidated statements of operations 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and by its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and regulations, and the bylaws of the Corporation and its wholly-owned subsidiaries.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Vancouver, Canada
April 22, 2005

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)

2004

2003

Assets

Current assets

Cash and cash equivalents (note 3)	\$ 6,679	\$ 5,402
Accounts receivable (note 5)	4,459	4,180
Materials and supplies	2,650	2,575
Prepaid expenses	845	577
Current portion of investment (note 6)	373	504

	15,006	13,238
Restricted cash (note 7)	2,690	2,845
Trust assets (note 8)	663	1,252
Investments (note 6)	3,498	3,905
Reserve for uninsured losses (note 9)	797	679
Diesel contingency fund (note 10)	772	755
Property, plant and equipment (note 11)	158,813	158,808
Deferred charges (note 12)	6,837	6,578
	\$ 189,076	\$ 188,060

Liabilities

Current liabilities

Accounts payable	\$ 4,201	\$ 3,832
Current portion of long-term debt (note 13)	1,239	1,096
Regulatory liabilities (note 14)	2,811	2,518

	8,251	7,446
Deferred revenue (note 15)	10,715	11,404
Trust liabilities	663	650
Contributions in aid of construction (note 16)	5,147	4,605
Long-term debt (note 13)	39,982	41,314
Reserve for future removal and site restoration costs	5,757	5,143
Diesel contingency fund (note 10)	772	755
	71,287	71,317

Equity

Contributed capital	41,501	41,501
Retained earnings	76,288	75,242
	117,789	116,743
	\$ 189,076	\$ 188,060

Contingencies and commitments (note 18)

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

Approved by the Board:

Chair

Director

Yukon Development Corporation

Consolidated Statement of Operations and Retained Earnings

For the year ended December 31, (in thousands of dollars)	2004	2003
Revenue		
Sales of Power	\$ 24,566	\$ 24,095
Other income	469	935
Finance income	457	495
Contribution - Canada	270	363
Contribution - Yukon	261	1,043
Interest income	201	222
	26,224	27,153
Expenses		
Board, corporate stewardship and administration	7,496	7,858
Operations and maintenance	4,642	5,265
Energy market transformation	732	1,301
Interest on long-term debt	1,857	1,026
Energy sector development	27	328
Corporate, environment and First Nations initiatives	214	238
Amortization of property, plant and equipment	6,235	5,697
Amortization of deferred charges	531	595
Provision for uninsured losses	50	50
	21,784	22,358
Net income before rate stabilization	4,440	4,795
Rate stabilization	3,394	1,020
Net income	1,046	3,775
Retained earnings, beginning of year	75,242	71,467
Retained earnings, end of year	\$ 76,288	\$ 75,242

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)	2004	2003
Cash flows from Operating activities		
Cash receipts from customers	\$ 24,598	\$ 26,266
Cash paid to employees and suppliers	(16,236)	(18,188)
Interest paid	(1,857)	(1,026)
Interest received	658	717
	7,163	7,769
Financing activities		
Decrease in restricted cash	155	895
Decrease in long-term debt	(1,189)	(1,081)
Decrease in trust assets	589	5,215
Increase (decrease) in trust liabilities	13	(2,338)
	(432)	2,691
Investing activities		
Property and equipment purchased	(5,698)	(8,277)
Decrease (increase) in long term investments	538	(298)
Increase (decrease) in reserves	496	(65)
Increase in deferred charges	(790)	(560)
	(5,454)	(9,200)
Net increase in cash	1,277	1,260
Cash and cash equivalents, beginning of year	5,402	4,142
Cash and cash equivalents, end of year	\$ 6,679	\$ 5,402

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPCC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiaries, Yukon Energy Corporation (YEC) and Energy Solutions Centre Inc.(ESC), were incorporated under the Yukon *Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Yukon Energy Corporation and Energy Solutions Centre Inc. are exempt from the *Financial Administration Act* (Yukon).

Rate Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Utilities Board pursuant to the *Public Utilities Act (Yukon)*. The regulatory hearing process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and the utility are to be balanced.

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

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

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs for prudence.

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 a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council, which give specific government direction to the YUB.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. The last general rate application was for the years 1996/97. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations - continued

On December 13, 2004, Yukon Energy Corporation filed with the YUB, pursuant to the *Public Utilities Act* and Order-In-Council 1995/90, an application requesting an Order granting new rates for secondary (interruptible) energy and the Faro mine site, on an interim refundable basis, effective with consumption January 1, 2005; and the application proposes the creation of a new Income Stabilization Trust that would include the balances of the Diesel Contingency Fund and the Anvil Range Mine dewater revenue account. In addition, the Corporation completed a depreciation study in 2004. The results have been included in the application and include a change in depreciation methodology that would have the effect of reducing depreciation expense. The application does not request any increase in firm rates charged to residential and commercial customers in 2005. After exchange of information, a public hearing was held April 18 to 21, 2005. A final decision of the YUB is expected later in 2005.

Water Regulation

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

2. Significant accounting policies

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc. The consolidated financial statements reflect Canadian generally accepted accounting principles and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles for a non-regulated entity. A description of significant accounting policies follows.

Regulatory accounting

Yukon Energy Corporation applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment.

The general impact of these regulatory accounting policies is to defer amounts that would otherwise be included in the determination of net income. These accounting policies result from the rate regulation of Yukon Energy Corporation and have been established through ongoing application or by approval of the YUB.

Diesel fuel price adjustment

With respect to the cost of diesel fuel used in generation, Yukon Energy Corporation is authorized by Order-in-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the YUB. Fluctuations in diesel fuel costs from approval levels are deferred and recovered or refunded over designated future periods prescribed by the YUB through revised rates charged to customers. The balance at December 31 is disclosed as rate adjustment receivable in accounts receivable (see note 5).

Regulatory liabilities

Yukon Energy Corporation has recorded as a regulatory liability insurance proceeds held on behalf of ratepayers, as shown in note 14. This represents the residual balance of insurance proceeds after allocation against all

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

reconstruction and operation and maintenance costs related to a fire at the Whitehorse Rapids Generating Station in 1997. The Corporation is required to use the balance of the insurance proceeds to the benefit of rate payers. The allocation of this amount will be the subject of a decision of the YUB.

Yukon Energy Corporation has also recorded as a regulatory liability revenue derived from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the YUB in Board Order 1998-5, Yukon Energy Corporation is deferring revenues collected from this rate class less any incremental costs to provide the service until application to the benefit of ratepayers is directed by the YUB.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. A provision to the reserve of \$50,000 is made annually as a charge to other expenses. Uninsured losses are charged directly against the reserve.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

The costs related to water licence renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing licence plus the expected term of the renewed licence. Yukon Energy Corporation operates its hydro generation facilities under three separate water licences, with terms ranging from 17 to 25 years. The costs of feasibility studies are amortized on a straight-line basis over five years. Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the YUB.

Reserve for future removal and site restoration costs

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis. The rates used to calculate the annual provision are approved by the YUB and are applied to the historical cost of the underlying assets.

Deferred revenue

The deferred gain on fire insurance proceeds - capital assets represents gain resulting from insurance proceeds received in relation to the reconstruction of facilities in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the YUB Order 2000-3.

Generally accepted accounting principles ("GAAP")

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

Cash equivalents

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

Financial instruments

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

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

Materials and supplies

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

Property, plant and equipment

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

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 40 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	8 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes an allowance for funds used during construction (AFUDC) at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Asset retirement obligations

As of January 1, 2004, Yukon Energy Corporation retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") on accounting for asset retirement obligations. The CICA recommendations require the Corporation to identify 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 Energy Corporation has determined that it has tangible long lived assets which have future legal obligations for retirement. As the Corporation 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 offsetting capital asset will be recognized.

Investments

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

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

Revenue recognition

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.

Employee pension plan

Yukon Energy Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 14 years.

Contribution - Canada

Contributions are received from the Government of Canada as part of a contribution agreement between the Corporation and Natural Resources Canada. The purpose of the program is to stimulate energy efficiency and renewable energy technologies. The program is delivered by the subsidiary, Energy Solutions Centre Inc. and revenue is recognized on an accrual basis, when services are performed.

Contribution - Yukon

Contributions were received in 1999 as part of the Yukon Government's commitment to sustainable energy development. These contributions are recognized as income when the eligible expenses are incurred.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, the reserve for future removal and site restoration and other long-term receivables. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of assets, and Yukon Energy Corporation's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB.

3. Cash and cash equivalents

	2004	2003
Bank balance	\$ 1,719	\$ 1,002
Short-term investments	4,961	4,400
Bank indebtedness	(1)	-
	\$ 6,679	\$ 5,402

Short-term investments are monies invested in a pooled money market fund. The short-term securities held in the

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

3. Cash and cash equivalents - continued

fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2004 was 2.65% (2003 - 2.83%).

Yukon Energy Corporation also has a demand line of credit facility with its banker that allows the Corporation to borrow up to \$10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government. At year end the Yukon Energy Corporation borrowed nil (2003 - nil) on the credit facility.

4. Funds held in trust

Funds held in trust represented holdbacks from payments made to the general contractor on the Mayo-Dawson City transmission line project. These were held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies were released. An offsetting liability was recorded in accounts payable and was equal to the holdbacks held.

On January 16, 2004 Yukon Energy Corporation signed an agreement with the contractor. One of the provisions of this agreement released the contractor from certain contract requirements related to deficiencies and warranties. In return, the contractor agreed to release claim on \$200,000 of the holdback outstanding.

5. Accounts receivable

	2004	2003
Retail energy sales	\$ 800	\$ 790
Wholesale energy sales	2,365	2,283
Other	1,281	991
Rate adjustment receivable	13	116
	\$ 4,459	\$ 4,180

Yukon Energy Corporation's wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the YUB. Wholesale power sales in 2004 were approximately \$16,493,000 (2003- \$16,017,000).

6. Investments

The Corporation's investments are summarized as follows:

	2004	2003
Direct financing leases	\$ 3,863	\$ 4,391
Leases receivable, net of deferred financing income	8	18
	3,871	4,409
Less: current portion	373	504
	\$ 3,498	\$ 3,905

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

6. Investments - continued

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 \$3,467,633 in 2004 (2003 - \$3,794,082).

7. Restricted cash

Cash is restricted by Government of the Yukon for the purposes of Green Power and Energy Efficiency projects.

8. Trust assets

	2004	2003
Construction contract holdbacks	\$ -	\$ 602
Energy infrastructure investment	663	650
	\$ 663	\$ 1,252

Construction contract holdbacks represented holdbacks from payments made to the general contractor on the Mayo to Dawson Transmission Line Project. These were held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies were released. An offsetting liability was recorded in accounts payable and was equal to the holdbacks held.

Energy infrastructure investment represents monies held by Yukon Development Corporation on behalf of a Yukon First Nation for investment in energy infrastructure. The ultimate use of these funds is subject to the finalization of necessary investment agreements. An equal offsetting liability is recorded in trust liabilities.

9. Reserve for uninsured losses

	2004	2003
Balance, beginning of year	\$ 679	\$ 346
Provision	(50)	(50)
Losses incurred		
Asset replacement	168	383
Balance, end of year	\$ 797	\$ 679

The balance in the reserve represents the amount by which accumulated losses have exceeded the provision to date. Yukon Energy Corporation has applied to the YUB, as part of the application described in note 1, to use the insurance proceeds held on behalf of ratepayers (see note 14) to recover this balance. As well, Yukon Energy Corporation has applied, as part of the application described in note 1, to increase the annual provision.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

10. Diesel contingency fund

	2004		2003	
Balance, beginning of year	\$	755	\$	734
Interest		17		21
Balance, end of year	\$	772	\$	755

The Yukon Utilities Board established the Diesel Contingency Fund with Board Order 1996-6. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

Yukon Energy Corporation has applied to the YUB, as described in note 1, to transfer the balance in this fund to a trust.

11. Property, plant and equipment

	Cost	Accumulated Amortization	2004 Net book Value	2003 Net book Value
Hydro-electric and diesel plants	\$ 134,454	\$ 40,699	\$ 93,755	\$ 94,344
Transmission	52,108	9,115	42,993	43,489
Distribution	13,567	4,606	8,961	7,742
Buildings and other equipment	15,374	6,015	9,359	9,041
Financial information system	1,308	942	366	560
Transportation	1,374	444	930	1,024
Land and land rights	1,079	-	1,079	1,066
Construction-in-progress	1,370	-	1,370	1,542
	\$ 220,634	\$ 61,821	\$ 158,813	\$ 158,808

Property, plant and equipment classified as Transmission include a transmission line from the Mayo Hydro Generating Station to Dawson City. This line was constructed to replace diesel generation in Dawson City with hydro-generated power. The project economics are forecasted to be less than the present value of the future costs of operating a diesel plant. The line came into service on September 6, 2003.

Total costs incurred to December 31, 2004 are \$34.7 million (the Corporation contributed capital assistance to its subsidiary YEC of \$5.8 million). Additional costs will be incurred in the future to correct the deficiencies with the line. As described in note 18, there are outstanding claims arising out of the project. All costs and recoveries resulting from the claims process will be capitalized, subject to approval of the rate regulator.

As part of the application described in note 1, the YUB will review the prudence of all capital works brought into service since the last general rate application in 1996/97.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

12. Deferred Charges

	Cost	Accumulated Amortization	2004 Net book Value	2003 Net book Value
Dam safety review	\$ 135	\$ 109	\$ 26	\$ 53
Deferred downsizing costs	334	167	167	214
Feasibility studies	1,142	276	866	631
Regulatory expenses	325	-	325	121
Relicensing	7,262	1,809	5,453	5,559
	\$ 9,198	\$ 2,361	\$ 6,837	\$ 6,578

Deferred charges have been deferred and amortized in accordance with decisions of the YUB.

13. Long-term debt

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

	2004	2003
Government of Canada		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual instalments of up to \$1,000,000 principal, plus accrued interest	\$ 28,278	\$ 28,688
Great West Life		
\$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly instalments of \$60,000 interest and principal with the final payment due July 2011	3,494	3,806
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly instalments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government	9,449	9,916
	41,221	42,410
Less current portion	1,239	1,096
	\$ 39,982	\$ 41,314

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the Whitehorse Generating Station assets.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

13. Long-term debt - continued

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2004 is 2.86% (2003 - 2.50%). For further discussion regarding this instrument, see note 18(b).

Mortgage payable

The mortgage is secured by land and buildings described in note 11.

Long-term debt repayment

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

2005	\$	1,237
2006		1,344
2007		1,446
2008		1,554
2009		1,677
Thereafter		33,963

\$ 41,221

Fair value

Fair value of \$50,132,000 (2003 - \$49,166,000) for all long-term debt was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

14. Regulatory liabilities

	2004	2003
Insurance proceeds held on behalf of ratepayers	\$ 744	\$ 744
Anvil Range Mine dewater revenue	2,067	1,774
	\$ 2,811	\$ 2,518

Yukon Energy Corporation has applied to the YUB, as described in note 1, to use the insurance proceeds held on behalf of ratepayers to offset accumulated losses in the reserve for uninsured losses (see note 9).

The Yukon Energy Corporation has applied to the YUB, as described in note 1, to transfer the balance in this fund to an Income Stabilization Trust in 2005. Future revenues from this rate class are to be recorded as revenue in the period earned.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

15. Deferred revenue

	2004	2003
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$3,168 (2003 - \$2,609))	\$ 8,025	\$ 8,558
Sustainable energy development funds	2,690	2,845
Deferred lease revenue	-	1
	\$ 10,715	\$ 11,404

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

16. Contributions in aid of construction

	Cost	Accumulated Amortization	2004 Net book Value	2003 Net book Value
Contributions from customers since 1998	\$ 2,777	\$ 173	\$ 2,604	\$ 1,642
Pre - 1998 contributions	1,739	813	926	1,231
Government of Yukon contributions	2,080	463	1,617	1,732
	\$ 6,596	\$ 1,449	\$ 5,147	\$ 4,605

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

17. Pension costs and obligations

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007.

The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2004 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Royal Trust as at December 31, 2004. The plan assets are invested as follows: equity investments (60.5%; 2003 - 63.9%), bonds (30.1%; 2003 - 30.6%) and cash and short term instruments (9.4%; 2003 - 5.5%).

The following table sets out the assumptions and pension amounts as at December 31, 2004. The Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining the Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2004, the Corporation's defined pension plan had 41 members (2003 - 42), and the RRSP had 34

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

17. Pension costs and obligations - continued

members (2003 - 28).

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Corporation contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of \$2,500 per year.

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

	2004	2003
Discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	6.50%	7.00%
Assumed rate of salary escalation	3.00%	3.75%
Assumed rate of pension indexing	2.50%	3.00%
Expected average remaining service life of employees	14 years	16 years
Benefit obligation determined by actuarial valuation	\$ 6,282	\$ 6,241
Fair value of plan assets	5,371	4,827
Plan deficit	\$ (911)	\$ (1,414)
Unrecognized amount		
- transitional (asset) obligation	(220)	(237)
- net actuarial losses (gains)	741	1,227
Accrued benefit liability	\$ (390)	\$ (424)
Pension expense	\$ 286	\$ 438
Employer contributions	\$ 320	\$ 237
Employee contributions	\$ 132	\$ 83
Benefits paid	\$ 299	\$ 43

The accrued benefit liability has been recorded on the Corporation's books of account and is included in accounts payable on the balance sheet. Yukon Energy Corporation's RRSP plan is a defined contribution pension plan. Employer contributions to the plan during 2004 were \$272,000 (2003 - \$203,000).

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

18. Commitments and contingencies

(a) Mayo to Dawson City transmission line project

As discussed in note 11, Yukon Energy Corporation completed the construction of the Mayo to Dawson City transmission line project during 2003. Subsequent to energization of the line, Yukon Energy Corporation and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis. To date, no legal action has commenced.

In April 2005, the contractor provided the Corporation with some additional information. Management is now reviewing this information and anticipates further documentation will be required before claims can be fully assessed. Once the documentation stage is complete, the parties will meet to select an appropriate legal process to resolve the outstanding issues. To date, Yukon Energy Corporation has not received sufficient information to assess the Corporation's exposure.

(b) Federal Transfer Agreement

Most of the assets of Yukon Energy Corporation were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are a number of claims that the Corporation has against Canada under the Transfer Agreement. Canada has made a demand on Yukon Energy Corporation under the Transfer Agreement more specifically in relation to amounts it alleges are owing to it under the flexible term note described in note 13. The various claims are described below:

I. Canada's claims against Yukon Energy Corporation

(i) Claim on the Flexible Term Note

On March 5, 2004 Canada made a demand on Yukon Energy Corporation for an amount it alleges the Corporation owes pursuant to the flexible term note referred to in note 13. The flexible term note provides for payments of principal and interest to be deferred and abated if particular power sales are less than specified amounts set out in the flexible term note. Since 1998, Yukon Energy Corporation has paid the Government of Canada pursuant to the formula under the Agreement without including secondary sales (a program of sales at reduced rates on an interruptible basis). Pursuant to its demand letter, Canada has taken the position that secondary sales should be included in the calculation. Yukon Energy Corporation has informed Canada that it disputes Canada's claim. Canada's claim is for principal of \$252,000, interest of \$511,000 and penalty interest at December 31, 2003. Refer to note 20 regarding the resolution of this claim subsequent to December 31, 2004.

II. Yukon Energy Corporation claims against Canada

(i) Claim against Canada arising from requirement to obtain a fish authorization in relation to the Aishihik Facility

In January 2004, Yukon Energy Corporation filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Corporation in May, 1999 that the Aishihik Facility required an authorization under the Fisheries Act. Yukon Energy Corporation alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that Yukon Energy Corporation had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Corporation incurred significant costs and expenses in negotiating and obtaining a Fisheries Act authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

18. Commitments and contingencies - continued

(ii) Soil contamination at the Whitehorse Facility

Yukon Energy Corporation has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was remediated in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Corporation's claim for indemnification arises under the Transfer Agreement.

Yukon Energy Corporation has had numerous discussions with representatives of the Government of Canada in an effort to establish a process to resolve all of the outstanding claims under the Transfer Agreement. These discussions are at preliminary stage. The outcome and potential resolution of the various claims outlined above are not known at this time.

(c) Rate Stabilization Fund

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stabilization Fund until 2005 with the Yukon Development Corporation required by OIC 2001/147 to contribute up to \$7,800,000 of internally generated funds before April 1, 2005. At December 31, 2004, Yukon Development Corporation had contributed \$4,856,121.

(d) Deferred charges

The Yukon Territory Water Board issued a water use licence in 2002, valid until December 31, 2019, for Yukon Energy Corporation's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this licence commits the Corporation 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 cost of which has not yet been determined; and
- annual fish monitoring programs

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

19. Environmental liabilities

Yukon Energy Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

Yukon Development Corporation

Notes to Consolidated Financial Statements

December 31, 2004 (tabular amounts in thousands of dollars)

20. Subsequent event

On March 30, 2005 the Government of Canada flexible term note was purchased by Yukon Development Corporation. The face value of the debt (\$28.3 million at December 31, 2004) owing by Yukon Energy Corporation and the terms and conditions of the note have not changed as a result of this transaction.

As described in note 18, Canada had made a demand for principal and interest alleged to have been improperly calculated on the flexible term note. As a result of the purchase of the instrument, this claim has been rescinded.

21. Comparative figures

Certain 2003 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.

22. Non-consolidated financial information

The nature and size of operations of the Corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2004 are also prepared and included in Yukon Development Corporation's annual report.