

YUKON
ENERGY



YUKON ENERGY
CORPORATION

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File: 2703-05-05

March 31, 2011

Yukon Utilities Board
P.O. Box 31728
Whitehorse, Yukon
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Attention: Bruce McLennan, Chair

Re: 2010 Annual Filings – Yukon Energy Corporation

Please find enclosed the unaudited financial statements for the year ended December 31, 2010 along with related 2010 information required by Sections 25 of the Public Utilities Act including:

1. Unaudited 2010 Financial Statements
2. Regulatory Schedules prepared based on unaudited 2010 Financial results:
 - a) Statement of utility income and rate of return;
 - b) Computation of net rate base;
 - c) Working capital calculation;
 - d) Reconciliation of utility income to net earnings;
 - e) Summary of capital assets;
 - f) Cost of capital calculations; and
 - g) List of Directors and Officers

Please be advised that the Audited Financial Statements and final schedules will be submitted after the year end audit is complete and the statements are approved by the Board of Directors.

Sincerely

Ed Mollard
Chief Financial Officer

Enclosures

Yukon Energy Corporation

Financial Statements

December 31, 2010

Draft as at March 31 2011

Yukon Energy Corporation

Financial Statements

December 31, 2010

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Draft as at March 31, 2011

Yukon Energy Corporation

Balance Sheet

(in thousands of dollars)

As at December 31,	2010	2009
Assets		
Current		
Cash	\$ 25,847	\$ 10,731
Accounts receivable (Note 4)	29,242	9,710
Materials and supplies	2,648	2,715
Prepaid expenses	368	394
	58,105	23,550
Customer contribution financing (Note 5 and 24)	17,424	17,424
Deferred uninsured losses (Note 6)	432	111
Diesel contingency fund (Note 7)	891	887
Property, plant and equipment (Note 8)	287,350	212,918
Deferred charges and intangible assets (Note 9)	18,963	13,451
	\$ 383,165	\$ 268,341
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 10)	\$ 16,859	\$ 6,616
Construction Financing (Note 11)	47,500	25,000
Current portion of long-term debt (Note 14 and 24)	3,864	3,783
	68,223	35,399
Faro mine dewatering deferral revenue (Note 12)	397	397
Long-term pension liability (Note 19)	1,035	1,036
Contributions in aid of construction (Note 13)	140,686	59,316
Regulatory provision for future removal and site restoration costs	4,764	5,008
Diesel contingency fund (Note 7)	891	887
Long-term debt (Note 14 and 24)	101,449	105,355
	317,445	207,398
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	26,720	21,943
	65,720	60,943
	\$ 383,165	\$ 268,341

Commitments and Contingencies (Notes 20 and 21)

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

Approved by the Board

_____, Chair

_____, Director

Yukon Energy Corporation

Statement of Operations, Comprehensive Income and Retained Earnings

(in thousands of dollars)

For the year ended December 31,	2010	2009
Revenue		
Sales of power (Note 15)	\$ 32,178	\$ 31,547
Other	476	866
	32,654	32,413
Operating expenses		
Administration (Note 16)	7,938	8,016
Operations and maintenance (Note 17)	7,899	7,597
Amortization of property, plant and equipment	5,657	5,427
Amortization of deferred charges	1,408	2,135
	22,902	23,175
Income from operations	9,752	9,238
Other income		
Allowance for funds used during construction	514	392
Amortization of capital assistance	378	378
Interest income	1,238	1,165
	2,130	1,935
Other expenses		
Interest on borrowings	7,005	6,894
Provision for uninsured losses (Note 6)	100	150
	7,105	7,044
Net income	4,777	4,129
Other comprehensive income	-	-
Comprehensive income	4,777	4,129
Retained earnings, beginning of year	21,943	21,777
Dividend	-	(3,963)
Retained earnings, end of year	\$ 26,720	\$ 21,943

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

Yukon Energy Corporation
Statement of Cash Flows
(in thousands of dollars)

For the year ended December 31,	2010	2009
Operating activities		
Cash receipts from customers	\$ 36,181	\$ 31,958
Cash paid to employees and suppliers	(5,923)	(18,378)
Interest paid	(7,005)	(6,894)
Interest received	1,616	1,543
Cash provided by operating activities	24,869	8,229
Financing activities		
Repayment of long-term debt	(4,139)	(4,532)
Proceeds (repayment) of short-term financing	(25,000)	25,000
Proceeds from construction financing	47,500	-
Contributions in aid of construction	58,825	1,552
Cash provided by financing activities	77,186	22,020
Investing activities		
Additions to property, plant and equipment	(80,019)	(18,283)
Additions to deferred charges	(6,920)	(4,984)
Payments from long-term receivable	-	495
Cash used in investment activities	(86,939)	(22,772)
Net increase in cash	15,116	7,477
Cash, beginning of year	10,731	3,254
Cash end of year	\$ 25,847	\$ 10,731

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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") is incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation (YDC), a corporation owned by the Government of Yukon (YG). Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. 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 in 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 borrowing costs related to borrowing that portion of the rate base which is financed with debt plus 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 forecast years.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. Canadian GAAP permits an entity to consult sources other than primary sources of GAAP to assist in selecting accounting policies. In particular, accounting standards published with the authority of the US Financial Accounting Standards Board (FASB). The Utility has consulted FASB and, more specifically, section SFAS 71 in regards to rate regulated accounting and the Utility meets the criteria set out by this section. The Utility is following SFAS 71 for recording rate regulated assets and liabilities. The regulatory accounting policies adopted by the Utility differ from the accounting policies prescribed by 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 3. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

Property, plant and equipment include 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 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

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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations

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

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

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent or Government. These contributions are deferred upon receipt and 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 while amortization of capital assistance from the parent is disclosed separately under Other income.

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 the 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement uncertainty

The preparation of financial statements in accordance with Canadian 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. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

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 Utility reviews its estimates of future environmental liabilities on an ongoing basis as described in Note 21.

ACCOUNTING CHANGES

Future Accounting Changes

On February 13, 2008, the Canadian Accounting Standards Board of Canada (AsSB) confirmed the adoption of 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 International Financial Reporting Standards (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 CICA Handbook up to the period ending on December 31, 2011.

The Utility will continue to assess the IASB's deliberations on the project. At the same time, we are currently assessing, through consultation with our external experts, whether any of our regulatory accounts could be recognized under the current IFRS framework. If rate-regulated accounting were not permitted and none of our regulatory accounts were determined to fall under the current IFRS framework, the write-off of our regulatory assets and regulatory liabilities would result in a net reduction to retained earnings of approximately \$2.7 million as at December 31, 2010. Regulatory 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these 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 costs associated with certain revenues, 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:
Regulatory assets:				
Deferred charges (Note 9), 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	1,635	1,074	10 to 45	(561)
Dam safety review	119	-	5	(119)
IFRS planning	434	255	Indeterminate	(179)
Deferred uninsured losses (Note 6)	432	111	Indeterminate	(321)
Diesel contingency fund (Note 7)	891	887	Indeterminate	(4)
	15,609	9,227		(6,382)
Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 12)	397	397	Indeterminate	-
Deferred insurance proceeds (Note 13)	6,816	7,086	25	(270)
Regulatory provision for future removal and site restoration costs	4,764	5,008	Indeterminate	(244)
Diesel contingency fund (Note 7)	891	887	Indeterminate	4
	12,868	13,378		\$ (510)
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				\$ (7,295)

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory assets

(a) Deferred charges

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

Feasibility studies and infrastructure planning

The 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 Order 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(b) Diesel contingency fund - continued

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 2010 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 annual provision of \$100,000 in 2010 and each subsequent year. 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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

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

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2010 expense 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 result 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).

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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

4. ACCOUNTS RECEIVABLE

	2010	2009
Green Infrastructure Funding (Note 13)	\$ 22,757	\$ 3,200
Wholesale energy sales	3,015	2,761
Retail energy sales	2,963	1,537
Other	507	2,212
	\$ 29,242	\$ 9,710

5. 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 kilometre spur line to the mine for a total of \$18 million. The customer is obligated to make interest only payments on the outstanding debt until 2012. From 2012 to 2017, the customer is obligated to make blended principal and interest payments such that the debt is extinguished by November 2017. This repayment schedule is subject to verification of mine life based on assessment of available reserves. At the direction of the YUB, the collection risk on this instrument is borne by YDC. Accordingly, YDC has loaned cash in an amount equal to this receivable at substantially the same terms. The Utility has recorded this loan as long term debt (see Note 14) and, if the industrial customer defaults on their debt, the Utility is released from the obligation to re-pay YDC. Subsequent to year end this financing has been paid in full. (see Note 24)

6. DEFERRED UNINSURED LOSSES

	2010	2009
Opening balance	\$ 111	\$ 556
Provision	(100)	(150)
Transfer from Regulatory liabilities (Note 12)	-	(413)
Losses incurred		
Asset replacements	421	118
Closing balance	\$ 432	\$ 111

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

7. DIESEL CONTINGENCY FUND

	2010	2009
Opening balance	\$ 887	\$ 883
Interest	4	4
Closing balance	\$ 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 Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2010 Net book Value	2009 Net book Value
Generation	\$ 148,508	\$ 57,245	\$ 91,263	\$ 87,679
Transmission	85,422	16,436	68,986	69,667
Distribution	27,422	8,303	19,119	19,954
Buildings and other equipment	19,540	7,469	12,071	11,383
Transportation	4,313	1,367	2,946	2,221
Land and land rights	1,114	-	1,114	1,116
Construction-in-progress	91,851	-	91,851	20,898
	\$ 378,170	\$ 90,820	\$ 287,350	\$ 212,918

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

9. DEFERRED CHARGES AND INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2010 Net book Value	2009 Net book Value
Deferred water licensing costs	\$ 9,198	\$ 4,521	\$ 4,677	\$ 5,222
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	-
	\$ 28,437	\$ 9,474	\$ 18,963	\$ 13,451

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Trade payables	\$ 16,263	\$ 5,945
Employee compensation	428	417
Other	168	254
	\$ 16,859	\$ 6,616

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

11. CONSTRUCTION FINANCING

	2010	2009
Short-term financing	\$ -	\$ 25,000
Construction financing	47,500	-
	\$ 47,500	\$ 25,000

Construction financing balances at December 31, 2010 are monies advanced from the parent to assist in the development of Utility infrastructure, primarily the Carmacks Stewart Stage 2 and Mayo B Hydro Electric Project. This funding will remain in place until the projects are placed in service at which point the repayment terms will be renegotiated. Interest on this funding is based on the Bankers Acceptance rate on the date of the cash draw plus 50 basis points. Interest is payable at least annually at December 31 and at the maturity date.

12. 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 (Note 6)	-	(413)
Closing balance	\$ 397	\$ 397

13. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2010	2009
	Gross	Accumulated Amortization	Net	Net
Contributions from Canada (Note 4)	\$ 32,616	\$ -	\$ 32,616	\$ 3,200
Capital assistance from parent since 1998	68,312	2,476	65,836	13,714
Contributions from customers since 1998	38,229	3,475	34,754	34,608
Pre-1998 contributions	1,739	1,075	664	708
Deferred insurance proceeds	11,602	4,786	6,816	7,086
	\$ 152,498	\$ 11,812	\$ 140,686	\$ 59,316

The Utility has entered into a contribution agreement with the Government of Canada for Green Infrastructure Funding for Stage 2 of the Carmacks to Stewart Crossing Transmission Line and the Mayo B Hydro Enhancement projects. The Utility is entitled to reimbursement of 50% of eligible costs to a maximum of \$71 million during the period May 2009 to March 2012 subject to meeting structured reporting requirements.

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

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2010

14. LONG-TERM DEBT

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

	2010	2009
Yukon Development Corporation		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ 24,111	\$ 25,111
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	20,887	22,494
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	14,707	15,157
\$18,000,000 term note related to the Transmission Line Construction Financing, bearing interest at 6.50% repayable in variable monthly installments due December 2017	17,424	17,424
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	3,583
Unsecured advance bearing interest at 5.28%, due one year after demand	4,251	4,251
Unsecured advance bearing interest at 4.65%, due one year after demand	3,901	3,901
Unsecured advance bearing interest at 5.28%, due one year after demand	3,963	3,963
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	5,724	6,472
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	274	294
	105,313	109,138
Less current portion	3,864	3,783
	\$ 101,449	\$ 105,355

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

14. LONG-TERM DEBT - continued

\$40,000,000 Flexible term note

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 2010 is 7.0% (2009 - 6.94%).

Mayo to Dawson Transmission Line Financing

The Utility obtained financing from YDC in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, YDC will pay the Utility the difference on or before March 31 of the next calendar year.

In 2010, benefits exceeded costs, which resulted in \$993,000 in interest paid to YDC. (In 2009, benefits exceeded costs, which resulted in \$1,022,000 in interest paid to YDC).

Unsecured Advances

The Utility did not declared a dividend to YDC (2009 - \$3,963,000). Advances are unsecured and due one year after demand.

Transmission Line Construction Financing

The Utility obtained financing from YDC in the amount of \$18 million for an industrial customer's Capital Cost Contribution for the transmission line from Carmacks to Minto Landing and Spur line to the customer. Financing of \$16 million was obtained effective November 22, 2008, the date the transmission line came into service and an additional \$1.9 million was obtained in 2009 after final projects costs were known. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built. The Utility is obliged to repay the loan when payments are received from the customer under the Power Purchase Agreement. YDC assumes all the risk involved in this debt. (See Note 24)

Long -term debt repayment

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

2011	3,890
2012	4,203
2013	7,093
2014	7,374
2015	7,676
Thereafter	75,077

\$ 105,313

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

14. LONG-TERM DEBT - continued

Fair value

Fair value at December 31, 2010 of \$124 million (2009 - \$118 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

15. SALES OF POWER

	2010	2009
Wholesale	\$ 23,301	\$ 22,291
General Service	3,315	3,007
Industrial	3,311	3,191
Residential	1,524	1,535
Secondary Sales	644	1,442
Sentinal and Street Lights	83	81
	\$ 32,178	\$ 31,547

16. ADMINISTRATION EXPENSES

	2010	2009
Wages and benefits	\$ 3,811	\$ 3,723
Insurance and taxes	1,078	1,075
General office	994	1,132
Information systems	733	776
Training, recruitment and development	546	539
Environmental	298	237
Intercompany services	252	302
Board of Directors	87	113
Material management and contracting	81	54
Regulatory loss	58	65
	\$ 7,938	\$ 8,016

17. 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
	\$ 7,899	\$ 7,597

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

18. RELATED PARTY TRANSACTIONS

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

Revenue from related parties is included in other revenue on the statement of operations. Rate Stabilization Fund revenues are received from YDC in accordance with terms established by YG which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are included in the sales of power on the statement of operations.

The following table summarizes the Utility's related party transactions for the year:

	2010	2009
Revenue		
Sales of service to YDC	\$ 236	\$ 301
Program cost reimbursement from YG	109	140
Rate subsidy received from YDC	246	226
Operating expenses		
Payment of interest on borrowings from YDC	\$ 6,472	\$ 6,299
Payment for financial information system usage to YDC	-	147
Other receipts		
Capital Contributions from YDC	\$ 52,500	\$ 2,833
Construction Financing from YDC	47,500	-
Advance from YG	-	25,000
Other payments		
Payment of dividend to YDC	\$ -	\$ 3,963

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2010	2009
YDC		
Accounts receivable	\$ 233	\$ 2,045
Accounts payable	\$ 110	\$ 109
Construction Financing	\$ 47,500	\$ 25,000
Current portion of long-term debt	\$ 3,083	\$ 3,035
Long-term debt	\$ 96,507	\$ 99,074
YG		
Accounts receivable	\$ 152	\$ 210

These balances are non-interest bearing and payable on demand except for long-term debt and Construction Financing (Note 14).

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

19. 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 (Canada Pension Plan) for the same five year period.

Annual cost of living increases to a maximum of 3.0% 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; and
- 5.0% of earnings in excess of the year's maximum pensionable earnings.

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

An actuarial valuation for funding purposes was performed as of January 1, 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:

	December 31, 2010	December 31, 2009
Equities	53.1%	51.4%
Fixed Income Securities	37.9%	39.5%
Real Estate	9.0%	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

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

19. PENSION COSTS AND OBLIGATIONS - continued

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
Unrecognised amount:		
- transitional asset	119	135
- net actuarial losses	(1,143)	(1,703)
Accrued benefit liability	\$ 1,174	\$ 1,172
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 the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and 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 benefit pension plan had 39 members (2009 - 39), and the RRSP had 56 members (2009 - 49).

20. COMMITMENTS

Aishihik water licence

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.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

20. COMMITMENTS - continued

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 licence 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.

21. 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 site 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.

As at December 31, 2010 no new 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.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2010, the Utility's financial instruments included cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities and long term debt. The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term receivable related to the Transmission Line Construction Financing is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term receivable as at December 31, 2010 is approximately \$19.0 million.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 14.

The Utility also has access to a \$10 million line of credit. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Interest rate risk

Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates.

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 Utility. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

Liquidity risk

Liquidity risk is the risk that the Utility will not be able to meet its financial obligations as they fall due. The Utility'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 Utility's reputation.

The Utility does not engage in hedging transactions.

23. CAPITAL MANAGEMENT

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

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

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

The long-term debt with YDC 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 (Note 14)	17,424	17,424
Total debt to include in the calculation	\$ 87,889	\$ 91,714

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2010

23. CAPITAL MANAGEMENT - continued

Share capital	\$	39,000	\$	39,000
Retained earnings		26,720		21,943
<hr/>				
Total equity		65,720		60,943
<hr/>				
Total capitalization	\$	153,609	\$	152,657
<hr/>				
Total debt to total capitalization		57 %		60 %
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There were no changes in the Utility's approach to capital management during the period.

24. 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 was paid in full by the industrial customer. On the same day, the balance owing on the \$18,000,000 term note in the amount of \$17,424,304.53 with Yukon Development Corporation related to the Transmission Line Construction Financing was paid in full.

On January 1, 2011, the Utility entered into an agreement with Yukon Development Corporation to renegotiate terms of all outstanding debt, excluding the term note related to the transmission line financing, between the two companies in the amount of \$81,890,873.28. The term of the new loan is until December 31, 2015 with interest at 4.25%. Interest on the loan is payable on the last business day of each month. The Utility will pay \$3,000,000 against the outstanding principal annually on December 31 starting on December 30, 2011. The Utility will repay the outstanding principal balance in full by December 31, 2015, unless alternative repayment is negotiated by the parties in writing.

25. COMPARATIVE FIGURES

Certain 2009 figures have been reclassified to conform with the current year's presentation.

YUKON ENERGY CORPORATION
UTILITY INCOME AND RATE OF RETURN
For The Year Ended December 31
(\$000s)

Utility Revenue	2010 Actuals (Unaudited)
Utility Electric Sales	32,178
Other Revenue	198
Total	32,376
<hr/>	
Utility Expense	
Labour	7,720
Non-Labour	
Operations and Maintenance	2,794
Administration	2,660
Insurance (excluding auto)	787
Donations	75
Fuel	1,145
Purchased Power	38
Total Operating and Maintenance Costs	15,219
Depreciation	
Fixed Asset Depreciation	7,369
Amortization of Contribution for Extensions	(1,846)
Amortization of Fire Insurance Gain	(270)
Amortization of Deferred Costs (including RFID)	1,507
Rate Case costs not allowed by YUB	
Other Taxes	291
Total Expenses	22,270
Less: Donations	75
Disallowed Expenses	
Disallowed Depreciation	4
Total	22,191
Utility (Regulatory) Income	10,185
<hr/>	
Net Rate Base	149,247
Rate Of Return on Capital	6.824%
<i>Rate of Return on Equity</i>	7.454%
<i>Cost of Debt</i>	6.379%



YUKON ENERGY CORPORATION
COMPUTATION OF NET RATE BASE
For The Year Ended December 31
(\$000s)

	2010
	Actuals (Unaudited)
Property, Plant and Equipment	378,188
Less: Work in progress	103,344
Accumulated Depreciation	90,818
Reserve for Future Removal and Site Restoration	4,764
Deferred Fire Gain	6,816
Customer Contributions (excluding for WIP)	43,632
 Net PPE in ratebase	 128,814
 Add: Deferred Study and Relicensing Costs	 17,492
Deferred Downsizing Costs	(0)
Accumulated Disallowed Depreciation	82
 Less: Disallowed Assets	 200
Reserve for Injuries and Damages	(432)
Regulatory Liabilities ¹	398
 Net balance at year end	 146,228
Add: Previous Year's Balance	141,922
 Total	 288,151
 Mid-year balance	 144,075
Add: Allowance for Working Capital	3,818
Mid-Year Rate Case Expense	1,354
Adjust for CSTP	
 Net Rate Base	 149,247

1 - Regulatory Liabilities consists of deferred dewatering revenues



YUKON ENERGY CORPORATION
WORKING CAPITAL CALCULATION
For The Year Ended December 31
(\$000s)

Working Capital	2010 Actuals (Unaudited)
Operation and Maintenance	15,219
Add: Other Taxes	291
Less: Donations and Disallowed expenses	133
Allowable Operating Expense	15,377
Allowance: Operating Expense (27/365 * Allowable Operating Expense in 2007)	1,137
Three Year Average Inventory	2,644
GST Impact	37
Total Working Capital	3,818



YUKON ENERGY CORPORATION
RECONCILIATION OF UTILITY INCOME TO NET EARNINGS
For The Year Ended December 31
(\$000s)

	2010 Actuals (Unaudited)
Utility Income	10,185
Add Non Utility Income:	
Allowance for Funds Used During Construction	514
Sub-Total	10,699
Less Non Utility Expenses:	
Long Term Interest	7,023
Other Interest	(1,238)
Donations	75
Disallowed Expenses ¹	58
Disallowed Depreciation	4
Net Earnings	4,776

1 - Disallowed expenses relate to disallowed costs with respect to Mayo B application under Part 3 of the Public Utilities Act per Order 2010-09.

YUKON ENERGY CORPORATION
SUMMARY OF CAPITAL ASSETS
For The Year Ended December 31
(\$000s)

Capital Assets	2010 Actuals (Unaudited)
Land	1,114
Hydroelectric and Diesel Plants	148,508
Transmission	85,422
Distribution	27,422
Buildings, Office and General Equipment	19,540
Transportation	4,313
Construction Work-in-Progress	91,851
Cost	378,170
Less: Accumulated Depreciation	90,818
Net Book Value	287,352
Less: Contribution for Extensions	43,632
Net Capital Assets	243,720

YUKON ENERGY CORPORATION
COST OF CAPITAL CALCULATION
For The Year Ended December 31
(%)

2010 Actuals (Unaudited)	Capital Ratio	Cost	Return Component
Long Term Debt	58.6	6.379	3.736
Common Equity	41.4	7.454	3.088
	100.00		6.824



YUKON ENERGY CORPORATION

DIRECTORS AND OFFICERS

DECEMBER 31, 2010

DIRECTORS

Piers McDonald, Chair

Whitehorse, Yukon

Paul Birckel

Whitehorse, Yukon

Pat Irvin

Watson Lake, Yukon

Luke Johnson

Whitehorse, Yukon

Justin Ferbey

Whitehorse, YT

Diane Lister

Marsh Lake, YT

Judy Gingell

Whitehorse, YT

OFFICERS

David Morrison

President & Chief Executive Officer

Shelley Dixon

Corporate Secretary

Ed Mollard

Chief Financial Officer