

YUKON
ENERGY



YUKON ENERGY
CORPORATION

P.O. Box 5920
WHITEHORSE
YUKON Y1A 6S7
(867) 393-5300

File: 2703-05-05

June 29, 2012

Yukon Utilities Board
P.O. Box 31728
Whitehorse, Yukon
Y1A 6L3

COPY

Attention: Bruce McLennan, Chair

Re: 2011 Annual Filings – Yukon Energy Corporation – Section 25

Please find enclosed the audited financial statements for the year ended December 31, 2011 along with related 2011 information required by Section 25 of the Public Utilities Act including:

1. Audited 2011 Financial Statements
2. Regulatory Schedules prepared based on audited 2011 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 or capital assets;
 - f) Cost of capital calculation; and
 - g) List of Directors and Officers

Sincerely

Ed Mollard
Chief Financial Officer

Enclosures

YUKON UTILITIES BOARD		
EXHIBIT		B-18
DAY	ENTERED BY	DATE
1	YEC	Nov 12/12

COPY

Yukon Energy Corporation

Financial Statements

December 31, 2011

YUKON ENERGY CORPORATION BOARD	
EXHIBIT B-12	
DATE	11/29/12

Yukon Energy Corporation

Financial Statements

December 31, 2011

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**YUKON ENERGY
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Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include 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 Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

A handwritten signature in dark ink, appearing to read "DM", written over a light blue horizontal line.

David Morrison,
President and CEO

A handwritten signature in dark ink, appearing to read "Ed Mollard", written over a light blue horizontal line.

Ed Mollard
Chief Financial Officer

May 9, 2012



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yukon Energy Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Yukon Energy Corporation, which comprise the balance sheet as at 31 December 2011, and the statement of operations, comprehensive income and retained earnings and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Yukon Energy Corporation as at 31 December 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of Yukon Energy Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations and the articles and by-laws of the Yukon Energy Corporation.



Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

9 May 2012
Edmonton, Canada

Yukon Energy Corporation**Balance Sheet**

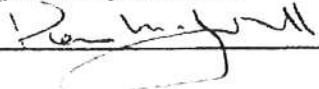
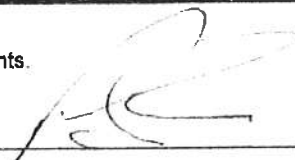
(in thousands of dollars)

As at December 31,	2011	2010
Assets		
Current		
Cash (note 4)	\$ 7,235	\$ 25,847
Accounts receivable (Note 5)	25,577	29,242
Materials and supplies	2,830	2,648
Prepaid expenses	614	368
	36,256	58,105
Customer contribution financing (Note 6)	-	17,424
Deferred uninsured losses (Note 7)	576	432
Diesel contingency fund (Note 8)	902	891
Property, plant and equipment (Note 9)	374,591	287,350
Deferred charges and intangible assets (Note 10)	24,240	18,963
	\$ 436,565	\$ 383,165
Liabilities		
Current		
Bank indebtedness (Note 11)	\$ 5,540	-
Accounts payable and accrued liabilities (Note 12)	28,031	16,859
Construction financing (Note 13)	13,905	47,500
Current portion of long-term debt (Note 16)	4,974	3,864
	52,450	68,223
Faro mine dewatering deferral revenue (Note 14)	397	397
Long-term pension liability (Note 22)	1,137	1,035
Contributions in aid of construction (Note 15)	173,566	140,686
Regulatory provision for future removal and site restoration costs	4,711	4,764
Diesel contingency fund (Note 8)	902	891
Long-term debt (Note 16)	120,190	101,449
	353,353	317,445
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
Contributed surplus (Note 17)	14,600	-
Retained earnings	29,612	26,720
	83,212	65,720
	\$ 436,565	\$ 383,165

Commitments and Contingencies (Notes 23 and 24)

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

Approved by the Board


_____, Chair
_____, Director

Yukon Energy Corporation**Statement of Operations, Comprehensive Income and Retained Earnings**
(in thousands of dollars)

For the year ended December 31,	2011	2010
Revenue		
Sales of power (Note 18)	\$ 34,047	\$ 32,178
Other	496	476
	34,543	32,654
Operating expenses		
Operations and maintenance (Note 19)	10,288	7,899
Administration (Note 20)	8,872	7,938
Amortization of property, plant and equipment	6,013	5,657
Amortization of deferred charges	905	860
Amortization of intangible assets	528	548
	26,606	22,902
Income from operations	7,937	9,752
Other income		
Allowance for funds used during construction	555	514
Amortization of capital assistance	546	378
Interest income	309	1,238
	1,410	2,130
Other expenses		
Interest on borrowings	4,302	7,005
Provision for uninsured losses (Note 7)	100	100
	4,402	7,105
Net income	4,945	4,777
Other comprehensive income	-	-
Comprehensive income	4,945	4,777
Retained earnings, beginning of year	26,720	21,943
Dividend	(2,053)	-
Retained earnings, end of year	\$ 29,612	\$ 26,720

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,	2011	2010
Operating activities		
Cash receipts from customers	\$ 34,511	\$ 32,679
Cash paid to employees and suppliers	(17,208)	(5,923)
Interest paid	(3,558)	(7,005)
Interest received	309	1,616
Cash provided by operating activities	14,054	21,367
Financing activities		
Receipt of construction financing	20,000	47,500
Repayment of short-term financing	-	(25,000)
Repayment of long-term debt	(21,197)	(4,139)
Contributions in aid of construction	38,358	61,813
Cash provided by financing activities	37,161	80,174
Investing activities		
Additions to property, plant and equipment	(86,334)	(79,505)
Additions to deferred charges and intangible assets	(6,457)	(6,920)
Repayment of long-term receivable	17,424	-
Cash used in investment activities	(75,367)	(86,425)
Net increase (decrease) in cash	(24,152)	15,116
Cash, beginning of year	25,847	10,731
Cash end of year	\$ 1,695	\$ 25,847
Cash includes:		
Cash (Note 4)	7,235	25,847
Bank indebtedness	(5,540)	-
Total	1,695	25,847

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, 2011

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

The 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 principles 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).

The YUB assesses the prudence of costs added to rate base, which includes an allowance for funds used during construction (AFUDC) charged to capital projects. The YUB also reviews the appropriateness of asset depreciation rates, which are periodically updated by the Utility through depreciation studies.

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 Utility's overall 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 (Note 28).

Yukon Energy Corporation

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

December 31, 2011

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 during normal on-going operations. When large assets are purchased or constructed, the parent may be required to make an equity contribution.

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. 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

Allowance for funds used during construction

The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. In prior years, the AFUDC rate estimate was based on the Utility's weighted average cost of capital (which included a cost of debt component and a return on equity component). In 2011 management revised its AFUDC rate estimate to remove the return on equity component and calculated the estimate based on the Utility's weighted average cost of debt. This change in estimate was applied prospectively effective January 1, 2011. The AFUDC rate estimate was 4.483% for 2011 (2010 - 7.09%).

Property, plant and equipment

The gain or loss on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, is deferred and amortized over the remaining expected useful lives of the assets.

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, 2011

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Regulatory provision for future removal and site restoration costs

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

Deferred charges

Deferred charges are recorded at cost and include an AFUDC component as allowed by the regulator.

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

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.

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

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, plant and equipment.

Yukon Energy Corporation

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

December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

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

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	30 to 40 years
Buildings	20 to 40 years
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 or Government is disclosed separately under Other income.

Deferred licensing costs

Costs related to obtaining license renewals for hydro and diesel generation facilities 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 separate licenses, with terms ranging from 17 to 25 years. Diesel generation air emission permits have a term of three years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the license.

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 24.

Yukon Energy Corporation

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

December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee pension plan

The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest-paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan. Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

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. Pension costs include the adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight-line basis over the expected average remaining service period of active employees, which is currently 9 years for the employee plan (2010 - 9 years) and 5 years for the executive plan. The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

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.

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.

ACCOUNTING CHANGES

Future Accounting Changes

Publicly accountable enterprises are required to move from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB) and adopted by the Canadian Institute of Chartered Accountants, for years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

On October 1, 2010, the Canadian Accounting Standards Board (AcSB) issued guidance to allow, but not require, entities with rate regulated activities to defer the transition. The Utility had elected to take this deferral option. In March 2012, the AcSB announced a further one year deferral for qualifying rate regulated entities to January 1, 2013. This further extension is offered in recognition that the IASB may choose to include rate-regulated activities on its future agenda. The Utility has chosen to adopt this deferral and continues to monitor the situation.

Yukon Energy Corporation

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

December 31, 2011

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 \$4,923,000 in 2011 (2010 - decreased by \$6,893,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2011	2010	Expected remaining recovery/settlement (years)	For 2011: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 10), net book value				
Feasibility studies and infrastructure planning	\$ 14,884	\$ 11,463	5 to 10	\$ (3,421)
Deferred customer service costs	571	635	10	64
Hearing costs	2,376	1,635	10 to 45	(741)
Dam safety review	95	119	5	24
IFRS planning	566	434	Indeterminate	(132)
Deferred uninsured losses (Note 7)	576	432	Indeterminate	(144)
Diesel contingency fund (Note 8)	902	891	Indeterminate	(11)
	19,970	15,609		(4,361)
Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 14)	397	397	Indeterminate	-
Deferred insurance proceeds (Note 15)	6,546	6,816	25	(270)
Regulatory provision for future removal and site restoration costs	4,711	4,764	Indeterminate	(53)
Diesel contingency fund (Note 8)	902	891	Indeterminate	11
	12,556	12,868		\$ (312)
Net impact of assets and liabilities	\$ 7,414	\$ 2,741		\$ (4,673)
Impact of other items through Income statement				(250)
Fuel Price Adjustment				(250)
Total effect				\$ (4,923)

Yukon Energy Corporation

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

December 31, 2011

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 2011 would have been \$3,421,000 higher (2010 - \$5,263,000 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 2011 would have been \$64,000 lower (2010 - \$65,000 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 2011 would have been \$741,000 higher (2010 - \$561,000 higher expenses).

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB Order 2009-8. In the absence of rate regulation, expenses in 2011 would have been \$24,000 lower (2010 - \$119,000 higher 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 2011 would have been \$132,000 higher (2010 - \$179,000 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. 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, 2011

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 2011 would have been higher by \$11,000 from interest earned on the DCF (2010 - \$4,000 higher income and expenses).

(c) Deferred uninsured losses

The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2009-8 to record an annual provision of \$100,000 in 2010 and each subsequent year. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2011 would have been higher by \$144,000 (2010 - \$321,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

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 2011 would have been lower by the amount of the amortization of \$270,000 (2010 - \$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, 2011

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 2011 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$53,000 (2010 expenses - \$244,000 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 2011, fuel expenses were recovered and consequently higher by \$250,000 (2010 fuel expense lower by \$111,000).

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"). For the year 2010 AFUDC was based on the Utility's weighted average cost of capital. 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. Because the AFUDC rate for 2010 included a cost of equity component, the amount capitalized in that year exceeds what would otherwise be allowed in the absence of rate regulation. In the absence of rate regulation, revenue for 2010 would be \$112,000 lower. The impact on revenue for 2011 is nil.

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, 2011

4. CASH

The cash balance includes an amount of \$7,235,404 (2010 - \$2,691,308) that is restricted for the payment of a contractor holdback.

5. ACCOUNTS RECEIVABLE

	2011	2010
Green Infrastructure Funding (Note 15)	\$ 19,724	\$ 22,757
Wholesale energy sales	2,663	3,015
Retail energy sales	1,528	1,774
Other	1,662	1,696
	<u>\$ 25,577</u>	<u>\$ 29,242</u>

6. CUSTOMER CONTRIBUTION FINANCING

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility agreed to finance the cost of transmission assets built to serve the customer. YDC also loaned the Utility cash in an amount equal to this receivable at substantially the same terms which was recorded as long term debt (see Note 16). During 2011, this financing was paid in full by the industrial customer, and on the same day, the loan owing to YDC was paid in full.

7. DEFERRED UNINSURED LOSSES

	2011	2010
Opening balance	\$ 432	\$ 111
Provision	(100)	(100)
Losses incurred		
Asset replacements	244	421
Closing balance	<u>\$ 576</u>	<u>\$ 432</u>

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

8. DIESEL CONTINGENCY FUND

	2011	2010
Opening balance	\$ 891	\$ 887
Interest	11	4
Closing balance	<u>\$ 902</u>	<u>\$ 891</u>

The annual return on investments for 2011 was 1.21% (2010 - 0.50%). The fair market value of these investments is equal to their 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, 2011

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2011 Net book Value	2010 Net book Value
Generation	\$ 276,335	\$ 60,374	\$ 215,961	\$ 91,263
Transmission	134,495	18,524	115,971	68,986
Distribution	28,265	9,599	18,666	19,119
Buildings and other equipment	20,327	8,456	11,871	12,071
Transportation	4,578	1,624	2,954	2,946
Land and land rights	1,112	-	1,112	1,114
Construction-in-progress	8,056	-	8,056	91,851
	\$ 473,168	\$ 98,577	\$ 374,591	\$ 287,350

10. DEFERRED CHARGES AND INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2011 Net book Value	2010 Net book Value
Intangible assets:				
Deferred licensing costs	\$ 10,796	\$ 5,049	\$ 5,747	\$ 4,677
Deferred charges:				
Feasibility studies and infrastructure planning	18,046	3,161	14,885	11,463
IFRS planning	566	-	566	434
Hearing costs	4,633	2,257	2,376	1,635
Deferred customer service costs	769	198	571	635
Dam safety review	332	237	95	119
	\$ 35,142	\$ 10,902	\$ 24,240	\$ 18,963

11. BANK INDEBTEDNESS

The Utility has access to a \$10 million line of credit. The account accrues interest on withdrawals at prime rate. At December 31, 2011, the balance of this line of credit was \$4,782,352 (2010 - \$0).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade payables	\$ 27,367	\$ 16,263
Employee compensation	219	428
Other	445	168
	\$ 28,031	\$ 16,859

Yukon Energy Corporation

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

December 31, 2011

13. CONSTRUCTION FINANCING

	2011	2010
Construction financing	\$ 13,905	\$ 47,500
	\$ 13,905	\$ 47,500

Construction financing balances are monies advanced from the parent to assist in the development of Utility infrastructure, primarily the Mayo B Hydro Electric Project and Stage 2 of the Carmacks to Stewart Crossing Transmission Project. Interest on this funding is based on the Bankers Acceptance rate on the date of the cash draws plus 50 basis points. Interest is payable annually at December 31 and at the maturity date.

The Utility received an additional \$20,000,000 in construction financing during the year. The Utility also entered into agreements with YDC, effective December 31, 2011, to roll-over \$38,995,000 of the construction financing into long-term debt - \$17,095,000 term note and \$21,900,000 flexible term note (Note 16). In addition, YDC agreed to convert \$14,600,000 of the construction financing into equity in order to maintain the Utility's capital structure of 60% debt and 40% equity which has been approved by the YUB. The \$14,600,000 equity contribution has been recorded as contributed surplus on the Utility's balance sheet (Note 17).

14. FARO MINE DEWATERING DEFERRAL REVENUE

	2011	2010
Faro mine dewatering deferral revenue account:		
Opening balance	\$ 397	\$ 397
Closing balance	\$ 397	\$ 397

15. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2011	2010
	Gross	Accumulated Amortization	Net	Net
Contributions from Canada (Note 5)	\$ 67,277	\$ 148	\$ 67,129	\$ 32,747
Capital assistance from parent since 1998	68,312	3,022	65,290	65,836
Contributions from customers since 1998	38,893	4,913	33,980	34,623
Pre-1998 contributions	1,739	1,118	621	664
Deferred insurance proceeds	11,602	5,056	6,546	6,816
	\$ 187,823	\$ 14,257	\$ 173,566	\$ 140,686

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.

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, 2011

16. LONG-TERM DEBT

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

	2011	2010
Yukon Development Corporation		
\$81,890,873 term note bearing interest at 4.25% repayable in annual installments of \$3,000,000 principal, plus accrued interest with the balance of \$68,890,873 due December 31, 2015	\$ 78,891	\$ -
\$17,095,000 term note bearing interest at 3.69% repayable in annual installments of \$683,800 principal, plus accrued interest, due December 31, 2036	17,095	-
\$21,900,000 flexible term note bearing interest at 5.46% repayable in annual installments of \$336,923 principal, plus accrued interest with the balance of \$8,423,078 due December 31, 2051	21,900	-
\$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
\$27,313,661 unsecured term note bearing interest at 5.88%, repayable monthly and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023	-	20,887
\$18,000,000 flexible unsecured 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	-	14,707
\$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
Unsecured advance bearing interest at 3.97%, due one year after demand	2,053	-
Unsecured advance bearing interest at 5.28%, due one year after demand	-	8,214
Unsecured advance bearing interest at 4.65%, due one year after demand	-	3,901
Unsecured advance bearing interest at 6.03%, due one year after demand	-	3,649
Unsecured advance bearing interest at 5.34%, due one year after demand	-	3,583
Unsecured advance bearing interest at 5.40%, due one year after demand	-	2,839
Carried forward to next page	\$ 119,939	\$ 99,315

Yukon Energy Corporation

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

December 31, 2011

16. LONG-TERM DEBT - continued

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

	2011	2010
Carried forward from previous page	\$ 119,939	\$ 99,315
TD Bank		
\$12,400,000 term note bearing interest at 4.02% (2010 - 7.81%) payable in monthly installments of \$94,406 (2010 - \$102,000) interest and principal, with the balance due September 30, 2016. The note is guaranteed by the Yukon Government. The terms of the note were renewed October 3, 2011	4,891	5,724
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	334	274
	125,164	105,313
Less current portion	4,974	3,864
	\$ 120,190	\$ 101,449

\$81,890,873 Term note

On January 1, 2011, the Utility entered into an agreement with YDC to renegotiate terms of all outstanding debt, excluding the term note related to the transmission line construction financing, between the two companies in the amount of \$81,890,873.

\$17,095,000 Term note

On December 31, 2011, the Utility entered into an agreement with YDC to arrange financing for the purpose of continuing to develop the electrical infrastructure in the Yukon.

\$21,900,000 Flexible Term Note

The terms of the flexible term note provide for a maximum amount of interest payable within a calendar year, calculated based on the grid generation and purchased power on the electrical grid system connected with the Mayo Hydro Enhancement Project. The amount of interest payable as a result of the interest rate exceeding the maximum interest payable will abate forever.

Unsecured Advance

The Utility declared a dividend to YDC in the amount of \$2,053,000 (2010 - \$0) and this was loaned back to the Utility at an interest rate of 3.97% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Long-term debt repayment

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

2012	4,974
2013	5,051
2014	5,091
2015	72,024
2016	1,893
Thereafter	36,131
	\$ 125,164

Yukon Energy Corporation

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

December 31, 2011

16. LONG-TERM DEBT - continued

Fair value

Fair value at December 31, 2011 of \$135 million (2010 - \$124 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.

17. CONTRIBUTED SURPLUS

Due to the amount of capital additions during the year, the Utility received an equity contribution of \$14.6 million from YDC in order to maintain its capital structure at 60% debt and 40% equity. The funding for this contribution was sourced from the existing YDC construction financing (Note 13).

18. SALES OF POWER

	2011	2010
Wholesale	\$ 24,170	\$ 23,301
Industrial	4,599	3,311
General service	3,342	3,315
Residential	1,800	1,524
Sentinal and street lights	90	83
Secondary sales	46	644
	\$ 34,047	\$ 32,178

19. OPERATIONS AND MAINTENANCE EXPENSES

	2011	2010
Wages and benefits	\$ 4,005	\$ 3,923
Maintenance		
- hydro, diesel and wind	1,297	1,031
- building and vehicle	1,205	1,011
- lines and substations	898	587
Fuel	2,727	1,189
Water level measurement	156	158
	\$ 10,288	\$ 7,899

Yukon Energy Corporation

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

December 31, 2011

20. ADMINISTRATION EXPENSES

	2011	2010
Wages and benefits	\$ 4,339	\$ 3,811
General office	1,281	994
Insurance and taxes	1,071	1,078
Information systems	583	733
Training, recruitment and development	459	546
Environmental	325	298
Board of Directors	289	87
Intercompany services	251	252
Regulatory loss	248	58
Material management and contracting	26	81
	\$ 8,872	\$ 7,938

21. 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. Interim Electrical Rebate program revenues are received from YDC in accordance with terms established by YG which established the program 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:

	2011	2010
Revenue		
Sales of service to YDC	\$ 231	\$ 236
Program cost reimbursement from YG	100	109
Rate subsidy received from YDC	262	246
Operating expenses		
Payment of interest on borrowings from YDC	\$ 3,586	\$ 6,472
Other receipts		
Project contribution from YDC	\$ 1,300	\$ -
Capital contributions from YDC	-	53,417
Construction financing from YDC	-	47,500
Other payments		
Repayment of principal on borrowings from YDC	\$ 20,424	\$ 3,057
Repayment of short-term financing to YG	-	25,000

Yukon Energy Corporation

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

December 31, 2011

21. RELATED PARTY TRANSACTIONS - continued

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

	2011	2010
YDC		
Accounts receivable	\$ 499	\$ 233
Accounts payable	\$ 836	\$ 110
Construction financing	\$ 13,905	\$ 47,500
Current portion of long-term debt	\$ 3,337	\$ 3,056
Long-term debt	\$ 116,602	\$ 96,258
YG		
Accounts receivable	\$ 420	\$ 152

These balances are non-interest bearing and payable on demand except for construction financing and long-term debt.

The Utility also entered into agreements with YDC, effective December 31, 2011, to roll-over \$38,995,000 of construction financing into long-term debt - \$17,095,000 term note and \$21,900,000 flexible term note (Note 16). In addition, YDC agreed to convert \$14,600,000 of the construction financing into equity in order to maintain the Utility's capital structure of 60% debt and 40% equity which has been approved by the YUB. The \$14,600,000 equity contribution has been recorded as contributed surplus on the Utility's balance sheet (Note 17).

In addition, the Utility declared a dividend to YDC in the amount of \$2,053,000 (2010 - nil) and this was loaned back to the Utility at an interest rate of 3.97% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

22. PENSION COSTS AND OBLIGATIONS

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2010. The next valuation for funding purposes will be conducted as of January 1, 2012. An actuarial valuation for funding purposes of the executive defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2011. The pension costs and obligations are based on the data used in these funding valuations and have been projected to December 31, 2011 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2011. The distribution of assets by major asset class is as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Equities	45.9%	53.1%
Fixed income securities	43.5%	37.9%
Real estate	10.6%	9.0%

Yukon Energy Corporation

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

December 31, 2011

22. PENSION COSTS AND OBLIGATIONS - continued

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

	2011	2010
Accrued benefit obligation determined by actuarial valuation	\$ 13,568	\$ 11,100
Fair value of plan assets	9,665	8,902
Funded status - plan deficit	\$ 3,903	\$ 2,198
Unrecognised amounts:		
- Transitional asset (liability)	(192)	119
- Net accumulated actuarial losses	(2,573)	(1,143)
Accrued benefit liability	\$ 1,137	\$ 1,174
Current portion of accrued benefit liability	\$ -	\$ 139
Long-term portion of accrued benefit liability	1,137	1,035
Accrued benefit liability	\$ 1,137	\$ 1,174
Pension costs	\$ 561	\$ 510
Employer contributions	596	508
Employee contributions	111	121
Benefits paid	137	132
Significant assumptions for employee defined benefit plan:		
Discount rate - accrued benefit obligation	5.25%	5.75%
Discount rate - pension costs	5.75%	6.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Significant assumptions for executive pension plans:		
Discount rate - accrued benefit obligation	4.50%	-
Discount rate - pension costs	5.75%	-
Expected long-term rate of return on plan assets	5.50%	-
Assumed rate of salary escalation	3.50%	-

The accrued benefit liability has been recorded by the Utility and its current portion of \$0 (2010 - \$139,000) 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 employee 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 employee 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 2011, these were \$306,000 (2010 - \$289,000).

Total cash payments for employee future benefits for 2011, consisting of cash contributed by the Utility to its funded defined benefit pension plans and cash contributed directly to the RRSP were \$902,000 (2010 - \$681,000).

Yukon Energy Corporation

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

December 31, 2011

23. 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:

- a) 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;
- b) Heritage Mitigation Plan. The Utility did not incur expenditures in 2011 on heritage projects and the amount to be expended in the future has not yet been determined; and
- c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water 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 2011 as the product or service had not been provided. The total commitments at year end are \$4,356,000 (2010 - \$89,963,000).

24. CONTINGENCIES

Carmacks to Stewart Crossing Transmission Project

The Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2011. In April 2011, the line construction contractor notified the Utility of a potential claim under the contract alleging increased costs of \$1,800,000 due to scheduling delays and change in scope caused by the Utility. The outcome of the potential claim is not determinable at this time and no amount has been recognized in the financial statements.

25. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. 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, 2011 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.

Yukon Energy Corporation

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

December 31, 2011

26. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2011, the Utility's financial instruments included cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, construction financing and long term debt. The fair value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

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 16.

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.

27. CAPITAL MANAGEMENT

The Utility's capital is its shareholder's equity which is comprised of share capital, contributed surplus 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. Short term debt related to assets under construction at the balance sheet date is excluded from the cost of debt calculation, as the assets are similarly excluded from the determination of rate base. 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.

Yukon Energy Corporation

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

December 31, 2011

27. CAPITAL MANAGEMENT - continued

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

(thousands of dollars)	2011	2010
Long-term debt due within one year	\$ 4,974	\$ 3,864
Long-term debt	120,190	101,449
Total debt	125,164	105,313
Less debt related to the Transmission Line Construction Financing (Note 16)	-	17,424
Total debt to include in the calculation	\$ 125,164	\$ 87,889
Share capital	\$ 39,000	\$ 39,000
Contributed surplus (Note 17)	14,600	-
Retained earnings	29,612	26,720
Total equity	83,212	65,720
Total capitalization	\$ 208,376	\$ 153,609
Total debt to total capitalization	60 %	57 %

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

28. SUBSEQUENT EVENTS

a) Subsequent to the year end, the Utility received a \$10 million short term loan from YDC. The monies were used to finance working capital requirements while the Utility was claiming for cost reimbursement under Federal funding programming for the Mayo B and for Stage 2 of the Carmacks to Stewart Crossing Transmission Line projects.

b) On April 27, 2012 the Utility filed a General Rate Application with the YUB for test years 2012 and 2013.

c) Aishihik Third Turbine Project. This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for \$4,000,000 plus interest and costs alleging the Utility has not paid for work performed. The Utility has informed the contractor of claims for incomplete contract scope, uncorrected deficiencies and other claims. The outcome of the claim is not determinable at this time and no amount has been recognized in the financial statements.

29. COMPARATIVE FIGURES

Certain 2010 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)

	2011
Utility Revenue	
Utility Electric Sales	34,047
Other Revenue	247
Total	34,294
Utility Expense	
Labour	8,368
Non-Labour	
Operations and Maintenance	3,572
Administration	2,855
Insurance	774
Donations	85
Fuel	2,708
Purchased Power	38
Total Operating and Maintenance Costs	18,400
Depreciation	
Fixed Asset Depreciation	7,902
Amortization of Contribution for Extensions	(2,175)
Amortization of Fire Insurance Gain	(270)
Amortization of Deferred Costs (including RFID)	1,532
Other Taxes	297
Total Expenses	25,686
Less: Donations	85
Disallowed Depreciation	4
Total	25,597
Utility (Regulatory) Income	8,697
Net Rate Base	180,010
Rate Of Return on Capital	4.83%
<i>Rate of Return on Equity</i>	6.58%
<i>Cost of Debt</i>	3.61%

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

	2011
Property, Plant and Equipment	473,003
Less: Work in progress (includes deferred cost WIP)	16,856
Accumulated Depreciation	98,577
Reserve for Future Removal and Site Restoration	4,711
Deferred Fire Gain	6,546
Customer Contributions (excluding for WIP)	166,900
Subtotal	179,413
Add: Deferred Study and Relicensing Costs	21,956
Deferred Overhauls ¹	179
Accumulated Disallowed Depreciation	86
Less: Disallowed Assets	200
Reserve for Injuries and Damages	(576)
Regulatory Liabilities ²	398
Net balance at year end	201,612
Add: Previous Year's Balance	146,988
Total	348,599
Mid-year balance	174,300
Add: Allowance for Working Capital	4,151
Mid-Year Rate Case Expense	1,559
Net Rate Base	180,010

1. Annual report shows under Property, Plant and Equipment.
2. Regulatory Liabilities consists of deferred dewatering revenues.

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

	2011
Working Capital	
Operation and Maintenance	18,401
Add: Other Taxes	297
Less: Donations and Disallowed expenses	333
Allowable Operating Expense	18,365
Allowance: Operating Expense (27/365 * Allowable Operating Expense)	1,358
Three Year Average Inventory	2,731
GST Impact	62
Total Working Capital	4,151

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

	2011
Utility Income	8,697
Add Non Utility Income:	
Allowance for Funds Used During Construction	555
Sub-Total	9,251
Less Non Utility Expenses:	
Long Term Interest	4,278
Other Interest	(309)
Donations	85
Disallowed Expenses ¹	248
Disallowed Depreciation	4
Net Earnings	4,945

1. Disallowed expenses relate to disallowed costs with respect to 2008/09 Phase II GRA, Alexco PPA and Rate Schedule 39.

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

2011	Capital Ratio	Cost	Return Component
Mid-year Long Term Debt	58.8	3.61	2.121
Mid-year Common Equity	41.2	6.58	2.710
	100.00		4.83

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

Capital Assets	2011
Land	1,112
Hydroelectric and Diesel Plants	276,335
Transmission	134,495
Distribution	28,265
Buildings, Office and General Equipment	20,327
Transportation	4,578
Construction Work-in-Progress ¹	7,891
Cost	473,003
Less: Accumulated Depreciation	98,577
Net Book Value	374,427
Less: Net Contribution for Extensions	166,900
Net Capital Assets	207,526

1. Excludes Deverred overhauls.

YUKON ENERGY CORPORATION

DIRECTORS AND OFFICERS

DECEMBER 31, 2011

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

Jason Bilsky
Whitehorse, YT

OFFICERS

David Morrison
President & Chief Executive Officer

Shelley Dixon
Corporate Secretary

Ed Mollard
Chief Financial Officer

