



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

The Honourable Pat Duncan, MLA
Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 1999 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

In my report dated June 30, 1999, my opinion on the December 31, 1998 financial statements contained a reservation because of an understatement of revenues and net income of \$2,139,000 for the year ended December 31, 1998. Management recorded this amount as revenue and net income for the year ended December 31, 1997, as directed by the Yukon Utilities Board in Board Order 1999-2.

Sheila Fraser, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 21, 2000

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED BALANCE SHEET**

As at December 31, 1999

(in thousands of dollars)

	1999	1998
		(restated)
Assets		
Current assets		
Cash and short term investments (note 3)	\$ 19,232	\$ 5,818
Accounts receivable (note 4)	9,857	9,332
Inventories	811	705
Prepaid expenses	347	281
Current portion of investment (note 5)	198	175
	30,445	16,311
Long-term receivables		
Long-term receivables (note 6)	5,143	6,126
Mortgages receivable	47	63
	5,190	6,189
Diesel contingency fund (note 7)	(57)	2,236
Rate Stabilization Fund (note 8)	8,595	-
Capital assets (note 9)	120,041	112,015
Deferred charges (note 10)	4,001	3,750
Investments (note 5)	4,561	4,759
	\$ 172,776	\$ 145,260
Liabilities		
Current liabilities		
Accounts payable	3,454	1,766
Current portion of long-term debt (note 11)	830	763
Interest payable	16	16
	4,300	2,545
Deferred revenue (note 12)	13,117	121
Reserve for uninsured losses (note 13)	(746)	(621)
Reserve for future removal and site restoration costs	4,069	3,532
Diesel contingency fund (note 7)	(57)	2,236
Rate stabilization fund (note 8)	8,595	-
Long-term debt (note 11)	45,189	46,009
Equity		
Contributed capital	41,501	41,501
Retained earnings	56,808	49,937
	98,309	91,438
	\$ 172,776	\$ 145,260

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

Contingencies (Notes 6, 18, 19)

Approved by the Board:

Chair

Director

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

For the year ended December 31, 1999

(in thousands of dollars)

	1999	1998
		(restated)
Revenue		
Sales of power	\$ 23,181	\$ 24,534
Other	139	(15)
	23,320	24,519
Operating expenses		
Operations and maintenance	5,614	5,943
Administration	5,006	4,665
Amortization of capital assets	4,295	4,156
Amortization of deferred charges	792	660
	15,707	15,424
Income from operations	7,613	9,095
Other expenses (income)		
Provision for uninsured losses	50	50
Finance charges, net (note 14)	451	1,480
Transition costs	(7)	70
Other expenses (note 15)	248	155
	742	1,755
Net income	6,871	7,340
Retained earnings, beginning of year	49,937	42,999
Power rate relief and subsidy payments	-	(402)
Retained earnings, end of year	\$ 56,808	\$ 49,937

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

YUKON DEVELOPMENT CORPORATION**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31, 1999

(in thousands of dollars)

	1999	1998
		(restated)
Cash provided by (used in) operating activities		
Net income	\$ 6,871	\$ 7,340
Items not resulting in a cash payment		
Amortization of capital assets	4,295	4,156
Amortization of deferred charges	792	660
	5,087	4,816
Changes in non-cash components of working capital		
Increase in accounts receivable	(525)	(6,710)
Decrease (Increase) in inventories	(106)	78
Increase in prepaid expenses	(66)	(33)
Increase (Decrease) in accounts payable	1,688	(1,000)
Decrease in interest payable	-	(1)
Increase in reserve for future removal & site restoration	537	569
	1,528	(7,097)
Cash provided by operating activities	13,486	5,059
Cash provided by (used in) investing activities		
Additions to capital assets	(11,900)	(4,994)
Contributions for plant extension	(421)	9
Increase in deferred charges	(1,043)	(176)
Increase in reserve for uninsured losses	(125)	(563)
Principal payments received on investments	175	154
Cash used in investing activities	(13,314)	(5,570)
Cash provided by (used in) financing activities		
Repayments of long-term debt	(753)	(812)
Decrease (Increase) in long-term receivables	999	(1,448)
Increase in deferred revenue	12,996	121
Cash provided by financing activities	13,242	(2,139)
Cash provided by (used in) other activities		
Power rate relief and subsidy payments	-	(402)
Cash used for other activities	-	(402)
Net Increase/(Decrease) in cash during the year	13,414	(3,052)
Cash beginning of year	5,818	8,870
Cash end of year	\$ 19,232	\$ 5,818

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

1. Authority, objectives and operations

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

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

The Corporation's wholly-owned subsidiary, Yukon Energy Corporation, was incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board.

Pursuant to Order-in-Council 1990/76, Yukon Energy Corporation is exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation

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

Water Regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred to secure a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate Regulation

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

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

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

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost of service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council issued by the Yukon Cabinet, which give specific government direction to the Board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances, such as those described in Note 6.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers'

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of material, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings over five years starting in the year that the project is abandoned.

Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing license plus the expected term of the renewed license, which is generally a long term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

General equipment overhaul expenditures in excess of \$250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Investments

The Corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Power rate relief and subsidy payments

Power rate relief and subsidy payments are paid as directed by the Yukon Government and charged to retained earnings as required by regulation.

Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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, other long-term receivables, the reserve for uninsured losses and the reserve for future removal and site restoration costs. Actual results could differ from these estimates.

3. Cash and short term investments

	1999	1998
Cash and short term investments YDC	\$ 18,014	\$ 9,323
Bank balance (overdraft) YEC	1,142	(1,907)
Operating line of credit	-	(1,600)
Short-term investments	76	2
	\$ 19,232	\$ 5,818

Yukon Energy Corporation has, if needed, an operating demand line of credit with its banker that allows the Corporation to borrow up to \$10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government.

4. Accounts receivable

	1999	1998
Fire insurance claim (notes 9,12,18)	\$ 3,121	\$ 3,604
Rate adjustment receivable	2,960	2,362
Wholesale energy sales	1,618	1,712
Retail energy sales	1,707	966
Other	451	688
	\$ 9,857	\$ 9,332

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

4. *Accounts receivable (continued)*

Accounts Receivable includes \$2,143,000 (1998 - \$1,801,000) due from the Yukon Electrical Company Limited. The Corporation's sales to the Yukon Electrical Company Limited were approximately \$15,258,000 (1998 - \$15,232,000) but, due to the wholesale nature of the sales, the Corporation is not economically dependent on it.

5. *Investments*

The Corporation's investments are summarized as follows:

	1999	1998
Direct financing lease	\$ 4,759	\$ 4,934
Less current portion	198	175
	\$ 4,561	\$ 4,759

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term (in 2011) the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is shown as finance income in note 14.

6. *Long term receivables*

	1999	1998
Anvil Range Mine bad debt	\$ 3,177	\$ 3,177
Anvil Range Mine Rider J cost of service shortfall	1,850	2,775
Anvil Range Mine Rider G balance	116	174
	\$ 5,143	\$ 6,126

Yukon Energy Corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January, 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. Yukon Energy Corporation's management expects to recover the receivable through future customer rates. Yukon Energy Corporation requested, in the April 22, 1998 rate application, that the receivable balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5.

Yukon Energy Corporation has appealed this decision to the Court of Appeal. Until the Court of Appeal decides whether or not Yukon Energy Corporation is entitled to collect the receivable from its customers, the amount has been recorded as a long-term receivable. Based on past experience, it is management's position that the Court of Appeal will allow Yukon Energy Corporation to collect this amount. The appeal is scheduled to be heard in March 2001.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

6. Long term receivables (continued)

There is uncertainty regarding the collection of this receivable through future customer rates since it requires the approval of the Court of Appeal. The amount that may subsequently be approved for collection might vary from nil to \$3,177,182. Any shortfall in future recovery below \$3,177,182 will be recorded as an expense in the period the shortfall becomes reasonably assured.

In accordance with Board Order 1998-5 Yukon Energy Corporation recorded the cost of service shortfalls as a long-term receivable of \$2,775,000 for 1998 and \$1,850,000 for 1999, and recorded Rider G balance for \$174,000 for 1998 and \$116,000 for 1999, related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of Yukon Energy Corporation. The Board also ordered that the amount to be included in Yukon Energy Corporation's rate base be reduced by \$925,000 per year commencing in 1998 for the cost of service shortfall and \$58,000 per year for Rider G. The long term portion of \$1,850,000 represents two years at \$925,000 per year, and \$116,000 represents two years at \$58,000 per year.

7. Diesel contingency fund

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

	1999	1998
Opening Balance	\$ 2,236	\$ 2,835
Interest	13	159
Hydro availability buildup (drawdown)	(1,132)	467
Forest fire impact buildup	-	58
Yukon Utilities Board Orders 1998-5 & 1997-7	(1,174)	(1,283)
Closing Balance	\$ (57)	\$ 2,236

In accordance with Board Order 1998-5 Yukon Energy Corporation made contributions to eligible customers to offset Rider J until the Diesel Contingency Fund was depleted.

8. Rate stabilization fund

The \$10 million Rate Stabilization Fund was created by the Yukon Government with a mandate to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal rate payers by minimizing the impact of rate increases over this period. The fund will be reviewed with input from stakeholders and the public in the year 2000.

	1999	1998
Opening Balance	\$ 10,000	\$ -
Payments	(1,830)	-
Interest	425	-
Closing Balance	\$ 8,595	\$ -

YUKON DEVELOPMENT CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 1999

(tabular amounts in thousands of dollars)

9. Capital assets

	1999		1998	
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	\$118,355	\$ 27,178	\$ 91,177	\$ 87,648
Transmission	18,353	5,178	13,175	13,517
Distribution	8,828	2,674	6,154	6,115
Buildings and other equipment	8,876	1,784	7,092	3,591
Financial Information System	739	19	720	-
Transportation	740	60	680	625
Land	110	-	110	103
Construction-in-progress	2,563	-	2,563	2,355
	158,564	36,893	121,671	113,954
Less: Contributions for plant extensions	2,068	438	1,630	1,939
	\$156,496	\$ 36,455	\$ 120,041	\$ 112,015

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility are included in the capital asset costs above. The resulting gain from insurance proceeds is included in deferred revenue (see notes 12 and 18).

The capital assets also include \$1,991,982 for betterments which improved the facility beyond the value replaced by the insurance proceeds.

10. Deferred charges

	1999		1998	
	Cost	Accumulated amortization	Net book value	Net book value
Relicensing	\$ 3,956	\$ 527	\$ 3,429	\$ 3,247
Feasibility Studies	2,878	2,780	98	184
Generating equipment overhauls	640	166	474	292
Other	-	-	-	27
	\$ 7,474	\$ 3,473	\$ 4,001	\$ 3,750

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

11. Long term debt

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

	1999	1998
Government of Canada		
\$40,000,000 flexible term note bearing interest at 7% payable in annual installments of \$1,000,000 interest and capital, with the balance due January 1, 2028	\$ 29,800	\$ 30,016
Mortgage payable \$5,750,000 mortgage bearing interest at 11.5%, payable in blended monthly installments of \$60 with the final payment due July 2011	4,756	4,934
Toronto Dominion Bank of Canada		
\$12,400,000 term note bearing interest at 7.94% payable in blended monthly installments of \$102,000 interest and capital, with the balance of \$67,000 due October 31, 2016. The note is guaranteed by the Yukon Government	11,463	11,822
	46,019	46,772
Less: Current portion	830	763
	\$ 45,189	\$ 46,009

Government of Canada note

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

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.

Mortgage payable

The mortgage is secured by the land and buildings described in note 5.

Long term debt repayment

Scheduled repayments for all long term debt are as follows:

2000	\$ 830
2001	897
2002	970
2003	1,047
2004	1,132
Thereafter	41,143
	\$ 46,019

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

11. Long term debt (continued)

Fair value

Fair value of \$45,199,000 (1998- \$49,832,000) for all long term debt was estimated using discounted cash-flow analysis based on an estimate of Yukon Energy Corporation's current borrowing rate for similar borrowing arrangements.

12. Deferred revenues

	1999	1998
Deferred gain on fire insurance proceeds	\$ 6,555	\$ -
Green and wind power, energy efficiency	6,272	-
Deferred diesel fuel price adjustment	290	121
	\$ 13,117	\$ 121

The Yukon Government provided \$6,000,000 towards sustainable energy for the Yukon people. Two 10 year programs were established totalling \$4,000,000 for green power and energy conservation and efficiency initiatives. Details on how they will be structured and administered are still being developed in consultation with stakeholders. \$2,000,000 was provided for a wind turbine that is being built in 2000. Interest on these amounts is also recorded as deferred revenue.

The deferred gain represents the gain resulting from insurance proceeds in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board in Board Order 2000-3 (see notes 9 and 18).

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel in accordance with procedures determined by the Yukon Utilities Board. Significant fluctuations in diesel fuel expense due to unusual circumstances or events, which result in a diesel fuel price adjustment, are deferred and recovered or refunded over specific future periods designated by the YUB through revised rates charged to customers.

YUKON DEVELOPMENT CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 1999

*(tabular amounts in thousands of dollars)***13. Reserve for uninsured losses**

	1999	1998
Opening Balance	\$ (621)	\$ (58)
Expense	50	50
Losses incurred		
Asset replacement	(67)	(33)
Line failures	(33)	(35)
Forest fires	-	(178)
Whitehorse Rapids Generation Plant insurance deductible	(75)	-
Whitehorse Rapids Generation interruption	-	(367)
Closing Balance	\$ (746)	\$ (621)

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

14. Finance charges, net

	1999	1998
Interest on long-term debt	\$ 1,869	\$ 1,913
Other interest	52	150
Interest (income) expense	(587)	82
Finance income	(609)	(629)
Allowance for Funds used during construction (AFUDC)	(274)	(36)
	\$ 451	\$ 1,480

15. Other expenses

	1999	1998
First Nations relations	\$ 9	\$ -
Research and development	179	155
Energy efficiency investment initiative	9	-
Strategic infrastructure planning	51	-
	\$ 248	\$ 155

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

16. Rate applications

On April 22, 1998 Yukon Energy Corporation filed a revised 1997 and 1998 Rate Application requesting a reduction in Yukon Energy Corporation's rate of return on equity in 1997, 1998 and 1999, the collection of the Anvil Range Mine receivable and the cost of service shortfalls in 1997 and 1998 caused by the shutdown of the mine. Yukon Energy Corporation also requested Board Orders to finalize 1997 Rates and approve Interim 1998 Rates.

On July 30, 1998 Yukon Energy Corporation received the Yukon Utilities Board Order 1998-5 with respect to this application. The Board ordered that the rate of return on equity be reduced from 10.75% to 9.45% for 1997 and 9.138% for 1998 and 1999. The Board disallowed the recovery of the Anvil Range Mine receivable of \$3,177,200 and stated that the Board "was of the opinion" that Yukon Energy Corporation should absorb the debt. This decision is being appealed through the Courts. The Board ordered that Yukon Energy Corporation's rates for 1997 be confirmed as final.

The Board approved the recovery of a 1997 revenue shortfall of \$812,000 through a 5.8% rider, effective August 1, 1998 until fully collected. The Board also acknowledged additional revenue shortfalls of \$1,326,700 for 1997, \$4,777,400 for 1998 and \$4,518,000 for 1999. The Board approved recovery of these shortfalls, excluding amounts related to the disallowed Anvil Range Mine receivable, through an interim refundable rider of 9.48% effective for billings issued on or after August 1, 1998. (In subsequent Board Order 1998-6 the Board approved an extension of the implementation date for the riders from August 1, 1998 to September 1, 1998). The rider was adjusted to 15.28% after the 5.8% rider ended for the 1997 \$812,000 shortfall. In Board Order 1999-5 the Board approved the Corporation's 1998 rates as final and directed the Corporation to increase rider J from 15.28% to 18.74% effective December 1, 1999 subject to the Corporation not filing for a further rate increase for the year ending December 31, 2000.

17. Pension costs and obligations

The Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

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

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

17. Pension costs and obligations (continued)

An actuarial valuation for funding purposes was performed as of December 31, 1999 by a consulting actuarial firm Aon Consulting Inc. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1999 to December 31, 1999 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and Yukon Electrical Company Ltd., dated February 5th, February 5th, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as at December 31, 1999.

The following table sets out the assumptions and pension amounts as at December 31, 1999. The Corporation's employees have the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). As at December 31, 1999 the Corporation's defined pension plan had 41 members, and the RRSP plan had 12 members.

Pension benefits are based on:

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

Annual cost of living increases to a maximum of 3.25% are provided to pensioners to the extent that the funds are available in the indexing fund. The Corporation contributes amounts as prescribed by an independent actuary. The following table sets out the assumptions and pension amounts as at December 31, 1999.

Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the years maximum pensionable earnings
- 2.0% of earnings in excess of years maximum pensionable earnings to a maximum of \$2,500 per year

The following table sets out the assumptions and pension amounts as at December 31, 1999.

	1999	1998
Discount rate	7.00%	7.00%
Expected long term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	19 years
Benefit obligation determined by actuarial valuation	\$ 3,298	\$ 2,806
Fair value of plan assets	3,615	2,803
Plan surplus (deficit)	\$ 317	\$ (3)
Pension expense	\$ 222	\$ 213
Employer contributions	\$ 193	\$ 208

YUKON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars)

18. Contingencies

(a) Fire insurance proceeds

The Corporation is in the process of negotiating a settlement with its insurer with respect to proceeds arising from a fire which destroyed capital assets of the Corporation. Management used its best estimate to determine the proceeds. However, if the proceeds are greater or less than the estimate a larger or smaller gain will be recognized in future years.

(b) General

In the ordinary course of business activities, the Corporation is a plaintiff and has been named as a defendant in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the position of the Corporation. Yukon Energy Corporation also has claims pending against certain parties, the outcomes of which are not yet determinable.

19. Environmental liabilities

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated.

20. Comparative Figures

Certain 1998 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

21. Non-consolidated financial information

The nature and size of operations of the Corporation and its subsidiary, Yukon Energy Corporation, differ substantially. Audited financial statements of Yukon Energy Corporation for the year ended December 31, 1999 are also prepared and included in Yukon Development Corporation's annual report. Certain non-consolidated unaudited financial information of the Corporation is provided in the Corporation's annual report for interested parties.

YUKON DEVELOPMENT CORPORATION**NON-CONSOLIDATED BALANCE SHEET (unaudited)**

As at December 31, 1999

(in thousands of dollars)

	1999	1998
Assets		
Current assets		
Cash and short-term investments	\$ 18,014	\$ 9,323
Accounts receivable	82	12
Due from Yukon Energy Corporation	269	-
Current portion of investment	198	175
	18,563	9,510
Trust Assets		
Rate stabilization fund	8,595	-
Investments		
Equity investments	39,000	39,000
Loans and advances	34,152	31,946
Direct financing lease	4,561	4,759
Capital Assets		
	1,053	-
Deferred charges	974	1,000
	\$ 106,898	\$ 86,215
Liabilities		
Current liabilities		
Accounts payable	373	94
Interest payable	16	16
Due to Yukon Energy Corporation	-	147
Current portion of long-term debt	199	178
	588	435
Deferred revenue	6,272	-
Trust Liabilities		
Rate stabilization fund	8,595	-
Long-term debt	4,556	4,755
Equity		
Contributed capital	41,501	41,501
Retained earnings	45,386	39,524
	86,887	81,025
	\$ 106,898	\$ 86,215

YUKON DEVELOPMENT CORPORATION**NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (unaudited)***For the year ended December 31, 1999**(in thousands of dollars)*

	1999	1998
Revenue		
Interest income	\$ 2,916	\$ 2,635
Dividend income	3,406	
Other Income	17	4,216
	6,339	6,851
Operating expenses		
Administration	769	378
Interest	(578)	(526)
Amortization	45	-
Transition costs	(7)	70
First Nations relations	9	-
Research and development	179	155
Energy Efficiency Investment Initiative	9	-
Strategic infrastructure planning	51	-
	477	76
Net income	5,862	6,775
Retained earnings, beginning of year	39,524	32,749
Retained earnings, end of year	45,386	39,524