YUKON DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2005

(audited)

This page intentionally left blank.

Yukon Development Corporation

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

David Morrison
Chief Executive Officer

Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
April 19, 2006

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2005 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
April 19, 2006

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)	2005	2004 (Restated-note 3)
Assets		
Current assets		
Cash and cash equivalents (note 5)	$ 8,108	$ 6,679
Accounts receivable (note 6)	4,154	4,459
Materials and supplies	2,099	2,650
Prepaid expenses	218	845
Current portion of investment (note 7)	419	373
	14,998	15,006
Restricted cash (note 8)	**2,617**	2,690
Trust assets (note 9)	**679**	663
Investments (note 7)	**3,075**	3,498
Property, plant and equipment (note 10)	**151,565**	152,460
Diesel contingency fund (note 11)	**791**	772
Deferred water licensing costs (note 12)	**5,871**	5,453
Reserve for uninsured losses (note 18)	**-**	797
Deferred charges (note 13)	**2,427**	1,384
	$ 182,023	$ 182,723
Liabilities		
Current liabilities		
Accounts payable	$ 3,839	$ 4,201
Current portion of long-term debt (note 16)	1,748	1,239
Regulatory liabilities (note 14)	1,776	2,811
	7,363	8,251
Deferred revenue (note 15)	**10,406**	10,715
Trust liabilities	**679**	663
Long-term debt (note 16)	**21,052**	39,982
Reserve for uninsured losses (note 18)	**33**	-
Contributions in aid of construction (note 19)	**5,552**	5,147
Reserve for future removal and site restoration costs	**5,618**	5,757
Diesel contingency fund (note 11)	**791**	772
	51,494	71,287
Equity		
Contributed capital	**41,501**	41,501
Retained earnings	**89,028**	69,935
	130,529	111,436
	$ 182,023	$ 182,723

Contingencies and Commitments (notes 21 and 22)
The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair

Director

Yukon Development Corporation

Consolidated Statement of Operations

For the year ended December 31, (in thousands of dollars)	**2005**	2004 (Restated-note 3)
Revenue		
Sales of Power	$ 25,940	$ 24,566
Finance income	414	457
Other income	371	469
Contribution - Canada	288	270
Contribution - Yukon	141	261
Interest income	236	201
	27,390	26,224
Expenses		
Administration	8,813	7,568
Amortization of property, plant and equipment	4,959	6,052
Operations and maintenance	4,879	4,642
Interest on long-term debt	1,349	1,857
Amortization of deferred charges and water licensing costs	900	531
Programs	558	901
Provision for uninsured losses (note 18)	100	50
	21,558	21,601
Net income before rate stabilization and gains/losses	**5,832**	4,623
Gain on settlement of debt (note 16)	**16,978**	-
Rate stabilization (note 22)	**(3,658)**	(3,394)
Loss on disposition of assets	**(59)**	-
Net income	**$ 19,093**	$ 1,229

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

Yukon Development Corporation

Consolidated Statement of Retained Earnings

For the year ended December 31, (in thousands of dollars)	2005	2004 (Restated-note 3)
Retained earnings, beginning of year		
As previously reported	$ 76,288	$ 75,242
Prior period adjustment (note 3)	(6,353)	(6,536)
Retained earnings, beginning of year as restated	69,935	68,706
Net income	19,093	1,229
Retained earnings, end of year	$ 89,028	$ 69,935

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

Yukon Development Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, (in thousands of dollars)		**2005**		2004
Cash flows from				
Operating activities				
Cash receipts from customers	$	26,736	$	24,598
Cash paid to employees and suppliers		(18,228)		(16,236)
Interest paid		(1,349)		(1,857)
Interest received		650		658
		7,809		7,163
Financing activities				
Decrease in restricted cash		73		155
New long-term debt obtained		10,711		(1,189)
Repayment of long-term debt		(12,153)		-
Decrease (increase) in trust assets		(16)		589
Increase in trust liabilities		16		13
		(1,369)		(432)
Investing activities				
Property and equipment purchased		(3,718)		(5,698)
Decrease in long term investments		377		538
Increase in reserves		691		496
Increase in deferred charges		(2,361)		(790)
		(5,011)		(5,454)
Net increase in cash and cash equivalents		**1,429**		1,277
Cash and cash equivalents, beginning of year		**6,679**		5,402
Cash and cash equivalents, end of year	**$**	**8,108**	$	6,679

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

1. Authority, objectives and operations

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (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 subsidiaries, Yukon Energy Corporation (the "Utility") and Energy Solutions Centre Inc.(ESC), were incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both of these boards are independent from the Utility.

The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon. On February 7, 2005 the Government of Yukon announced that operations of the Canada Yukon Energy Solutions Centre were to be separated from the control of Yukon Development Corporation and transferred to the Department of Energy Mines and Resources. The date of transfer was established as December 30, 2005. Some assets and liabilities still exist at December 31, 2005 in Energy Solutions Centre Inc., however the company is expected to be dissolved in 2006.

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

Rate Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the YUB pursuant to the *Public Utilities Act (Yukon).* There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment or rate base. Whereas 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 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 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

1. Authority, objectives and operations - continued

Rate Regulation - continued

- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in Council 1995/90 and can include a cost-of-service study which allocates the overall Utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

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.

2. Significant accounting policies

Financial statement presentation
The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc. The consolidated financial statements reflect Canadian generally accepted accounting principles and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. Effective December 31, 2005, the Utility retroactively adopted the Canadian Institute of Chartered Accountant's guideline 19 pertaining to the disclosure and presentation of information by entities subject to rate regulation. This change in presentation had no effect on the Utility's current or prior year net income or retained earnings. Impacts of accounting for rate regulated operations are further described in Note 4.

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 regulatory bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise (see note 4). Consequently, the significant accounting principles have been classified accordingly in the notes below:

2. Significant accounting policies - continued

Rate regulated accounting policies

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

Regulatory liabilities
Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate setting process.

Reserve for uninsured losses
As a means of self-insurance, the Utility maintains a reserve for uninsured losses. The reserve is maintained through an annual provision approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges
Deferred charges are recorded at cost less accumulated amortization. Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five and ten years respectively. Regulatory hearing costs are amortized on a straight-line basis over three years. Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the YUB.

Regulatory provision for future removal and site restoration costs
The Utility maintains a reserve for the future removal of property, plant and equipment and the costs of site restoration related to those assets. The costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset and site restoration, net of actual recoveries, are deducted from this account when they do not relate to an asset retirement obligation.

Deferred revenue
Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate that the replacement assets.

Diesel contingency fund
The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally accepted accounting principles ("GAAP")

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

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

December 31, 2005 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

Generally accepted accounting principles ("GAAP") - continued

Revenue recognition
All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

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

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

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Financial Information System	5 to 10 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

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

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.

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

Derivative financial instruments
The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

2. Significant accounting policies - continued

Generally accepted accounting principles ("GAAP") - continued

Derivative financial instruments - continued
The Corporation does not apply hedge accounting to its derivatives. Derivatives are recognized on the balance sheet upon issuance, and removed from the balance sheet when they expire or are terminated. Both on initial recognition and subsequently, each derivative is recognized as either an asset or a liability on the balance sheet at its fair value. Derivatives with a positive fair value are reported as derivative related amounts as a component of total assets. Derivatives with a negative fair value are reported as derivative related amounts as a component of liabilities.

The change in the fair value of derivatives is recognized in income in the period in which it occurs. Management's intention is to hold derivatives to maturity resulting in the cumulative unrealized gains and losses on individual derivative instruments netting to zero over the life of the instrument.

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

Deferred water licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan
The Utility 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 actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the estimated average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000.

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

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

December 31, 2005 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

Generally accepted accounting principles ("GAAP") - continued

Measurement uncertainty
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations and employee pension obligations. Actual results could differ by a significant amount from these estimates. Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in note 4.

3. Correction of an accounting error affecting prior periods

It has been determined that the value of certain assets should have been recorded at the amount permitted to be approved through the rate base by the regulator and not recorded at their original cost. The adjustment has been made retroactively. The cumulative effect of the error on years prior to 2004 has been reflected in the opening balance of retained earnings for 2004. The effect of this adjustment for 2005 is an increase in Net income of $145,000. The effect of the change are as follows:

	2004 as previously reported	Adjustments	2004 Restated
Property, plant and equipment	158,813	(6,353)	152,460
Net income	1,046	183	1,229
Retained earnings, beginning of year	75,242	(6,536)	68,706
Retained earnings, end of year	76,288	(6,353)	69,935

4. Financial statement effects of rate regulation

Certain items in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

December 31, 2005 (tabular amounts in thousands of dollars)

4. Financial statement affects of rate regulation - continued

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2005	2004	Expected remaining recovery/ settlement (years)	For 2005 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets				
Deferred charges (note 13), net book value				
Feasibility studies	$ 1,498	$ 866	4 to 10	$ (632)
Downsizing costs	119	167	2	48
Hearing costs	622	325	2	(297)
Dam safety review	89	26	2 to 4	(63)
Diesel contingency fund (note 11)	791	772	Indeterminate	(19)
	3,119	2,156		(963)
Regulatory liabilities:				
Anvil Range Mine dewater revenue (note 14)	1,776	2,067	Indeterminate	(291)
Insurance proceeds held on behalf of ratepayers (note 14)	-	744	-	-
Deferred gain on fire insurance proceeds (note 15)	7,789	8,025	30	(236)
Reserve for uninsured losses (note 18)	33	(797)	Indeterminate	86
Regulatory provision for future removal and site restoration costs	5,618	5,757	Indeterminate	(139)
Diesel contingency fund (note 11)	791	772	Indeterminate	19
	16,007	16,568		(561)
Net impact	**$ (12,888)**	$ (14,412)		$ (1,524)

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 in the year incurred.

Feasibility studies
The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. Infrastructure planning costs are amortized over ten years as approved by YUB order 2005-12. In the absence of rate regulation, expenses in 2005 would have been $632,000 higher.

Downsizing costs
Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2005 would have been $48,000 lower.

Hearing costs
The Utility incurred $1,133,000 in costs associated with the YUB regulatory proceedings held in 2005. These costs consist primarily of legal and consulting costs incurred by the Utility of $851,000 and reimbursement of YUB and reimbursement of YUB and intervener costs of $282,000. YUB Order 2005-16 directed the Utility to reimburse the YUB and interveners for costs they incurred in the amount of $282,000.

4. Financial statement affects of rate regulation - continued

Hearing costs - continued

YUB Order 2005-17 disallowed $200,000 of the $851,000 of costs incurred by the Utility. The disallowed amount has been recorded as Administration expenses in the current year. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of $933,000 over 3 years commencing January 1, 2005. In the absence of rate regulation, expenses in 2005 would have been $297,000 higher.

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. In the absence of rate regulation, expenses in 2005 would have been $63,000 higher.

Regulatory liabilities

Anvil Range Mine dewater revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from Anvil Range 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 Anvil Range minesite would be charged the General Service-Government rate so there will be no further increases to dewatering revenue. This order also enables the Utility to draw down on the Anvil Range dewater revenue to fund its approved 2005 revenue shortfall. YUB Order 2005-17 set the approved 2005 revenue shortfall at $291,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2005 would have been $291,000 lower. 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.

Insurance proceeds held for ratepayers

Insurance proceeds held on behalf of ratepayers represents the residual balance of insurance proceeds after allocation against all reconstruction and operation and maintenance costs related to a fire at the Whitehorse Rapids Generating Station in 1997, pursuant to Board Order 2002-3. As directed by YUB Order 2005-12, the insurance proceeds of $744,000 were applied to the reserve for uninsured losses deficit during the year. In the absence of rate regulation, the insurance proceeds would have been included in income in the year received. The impact on current year net income would be $0.

Deferred revenue

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board 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 current year net income would have been lower by the amount of the amortization of $270,000.

Reserve for uninsured losses

The YUB has approved the use of a reserve for uninsured damages and injuries as a means of self-insurance. The reserve is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of $744,000 to the reserve for uninsured loss, and increase the annual provision from $50,000 to $100,000 for the years 2005 to 2007.

4. Financial statement affects of rate regulation - continued

Reserve for uninsured losses - continued

The annual provision will revert back to $50,000 unless the YUB subsequently orders otherwise. In the absence of rate regulation, GGAP would require costs to be expensed as incurred and, therefore, expenses in 2005 would have been lower by $86,000. The period over which the reserve will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

Regulatory provision for future removal and site restoration costs

Pursuant to depreciation rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, 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. In the absence of rate regulation, GAAP would have required the Utility to reverse the reserve to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2005 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $139,000. 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.

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 a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust 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. As directed by Board Order 2002-3, the current balance of the DCF consists of the fire insurance gain of $744,000, realized as part of the settlement of the insurance claim arising from the fire at the Whitehorse Rapids Generating Station, plus interest earned on the funds held in trust. In the absence of regulation, GAAP would have required the amounts transferred to and from the DCF, and 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 net income in 2005 would have been higher by $19,000 from interest earned on the DCF.

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

4. Financial statement affects of rate regulation - continued

Other items affected by rate regulation - continued

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. The gain or loss on all other property, plant and equipment is charged to accumulated depreciation and 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.

YUB Order 2005-12 disallowed capital costs related to the Mayo-Dawson transmission line in excess of $28,996,000. As a result of the YUB order, the Utility wrote down the value of property, plant and equipment related to the Mayo-Dawson transmission line by $1,224,000. In 2005, $554,000 related to costs incurred to correct deficiencies and have been recorded as Operations and maintenance costs (line and substation costs). $671,000 related to legal costs incurred to pursue claims and counter claims against Chant Construction and have been recorded as Administration (General office and governance costs). In the absence of rate regulation, net income would not change as GAAP would also require the Utility to record the write-down. Additionally, YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo Dawson line as a result of pursuing any claims or counter claims against Chant Construction and directs the Utility to record any recoveries from Chant Construction in an interest bearing deferred account for future review and disposition by the YUB.

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.

Rate decision

On October 18, 2005, the YUB issued YUB Order 2005-12 related to the Utility's revenue requirements application dated December 13, 2004 which includes the Utility's 2005 fiscal year. The Utility's application requested changes to certain regulated accounts: the rate charged for Rate Schedule 32 (Secondary Energy); and the elimination of Rate Schedule 34 (Faro Mine Firm Shutdown Power). As a result of YUB Order 2005-12 and related follow-up decisions, effective January 1, 2005, the Utility is entitled to a rate of return on common equity of 9.05%. The major items contained in these decisions are:

- to set rates for residential and commercial customers as permanent effective January 1, 2005;
- to apply amounts currently recorded as regulatory liabilities in the Anvil Range Mine dewater revenue deferral account, to offset 2005 revenue shortfalls totaling $291,000. Additional amounts up to $291,000 per year can be ordered by the YUB for 2006 and 2007;
- to apply the $744,000 balance of the regulatory liability recorded as insurance proceeds held for ratepayers against the reserve for uninsured losses deficit;
- to increase the annual appropriation to the reserve for uninsured losses to $100,000 for each of the 2005, 2006 and 2007 years;
- implementation of new depreciation rates with the cumulative prior years impact of the rate change amortized to income over the average remaining life of the assets;

December 31, 2005 (tabular amounts in thousands of dollars)

4. Financial statement affects of rate regulation - continued

Rate decision - continued

- discontinue the annual provision for future removal and site restoration, and notify interveners and interested parties when the balance reaches $2,000,000;
- limit the inclusion of Mayo Dawson transmission line costs in the Utility's rate base to $28,996,000;
- to disallow any further costs incurred on the Mayo Dawson line related to claims and counter claims between Chant Construction and the Utility;
- to record recoveries received with respect to claims and counterclaims between the Utility and Chant Construction in an interest bearing deferral account with the future disposition of the balance in the account to be determined by the YUB;
- to defer $650,000 of the $851,000 direct costs incurred by the Utility related to the hearing costs account (as forecast in the November 17, 2005 compliance filing submitted to the YUB) and amortize equally over 3 years commencing January 1, 2005;
- to pay $282,000 to the YUB and interveners for their costs incurred to participate in the hearing, and to include this amount in the deferred hearing costs account to be amortized equally over three years commencing January 1, 2005;
- elimination of rate schedule 34 (Faro Mine Shutdown Firm Power);
- approval of an automatic quarterly rate setting mechanism for rate schedule 32 (Secondary Energy), whereby the Utility sets the rate on a quarterly basis at 66.7% of the avoided price of fuel oil and is required to provide the YUB with notification of the quarterly rate change; and
- to refund to secondary energy customers the difference of $45,000 between the interim and permanent rates, plus interest of $1,000.

5. Cash and cash equivalents

	2005	2004
Bank balance	$ 4,096	$ 1,718
Short-term investments	4,012	4,961
	$ 8,108	$ 6,679

Short-term investments are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2005 was 2.75% (2004 - 2.41%). The fair market value of these investments is equal to the carrying amount (note 24).

Yukon Energy Corporation also has a demand line of credit facility with its banker that allows the Utility to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government. At year end the Yukon Energy Corporation borrowed nil (2004 - nil) on the credit facility.

December 31, 2005 (tabular amounts in thousands of dollars)

6. Accounts receivable

		2005		2004
Wholesale energy sales	$	2,666	$	2,365
Retail energy sales		1,008		800
Other		480		1,294
	$	**4,154**	$	4,459

Yukon Energy Corporation's wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the YUB. Wholesale energy sales in 2005 were approximately $16,977,000 (2004- $16,493,000).

7. Investments

The Corporation's investments are summarized as follows:

		2005		2004
Direct financing leases	$	3,494	$	3,863
Leases receivable, net of deferred financing income		-		8
		3,494		3,871
Less: current portion		419		373
	$	**3,075**	$	3,498

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term (in 2011) the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is recognized as finance income. The investment was $3,097,781 in 2005 (2004 - $3,467,633).

8. Restricted cash

Cash is restricted by Government of the Yukon for the purposes of Green Power and Energy Efficiency projects. As part of the government-mandated transfer of operations of the Canada Yukon Energy Solutions Centre to the Department of Energy, Mines and Resources, these funds were transferred to Yukon's Department of Finance in March 2006.

9. Trust assets

		2005		2004
Energy infrastructure investment	**$**	**679**	$	663

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

December 31, 2005 (tabular amounts in thousands of dollars)

10. Property, plant and equipment

	Cost	Accumulated Amortization	**2005** Net book Value	2004 Net book Value (Restated-note 3)
Generation	$ 135,572	$ 43,521	$ 92,051	$ 93,755
Transmission	47,024	9,829	37,195	37,387
Buildings and other equipment	13,797	4,993	8,804	8,612
Distribution	13,575	4,825	8,750	8,961
Construction-in-progress	2,369	-	2,369	1,370
Transportation	1,613	470	1,143	930
Financial information system	1,316	1,143	173	366
Land and land rights	1,080	-	1,080	1,079
	$ 216,346	**$ 64,781**	**$ 151,565**	$ 152,460

Energy Solutions Centre transferred assets to the Department of Energy Mines and Resources at December 30, 2005 for the cost $1. This generated a net loss on disposal of capital assets of $53,838, equivalent to the net book value of $77,057 less the remaining deferred capital funding balance of $23,219.

11. Diesel contingency fund

	2005	2004
Balance, beginning of year	$ 772	$ 755
Interest	19	17
Balance, end of year	**$ 791**	$ 772

12. Deferred water licensing costs

	Cost	Accumulated Amortization	**2005** Net book Value	2004 Net book Value
Deferred water licensing costs	**$ 8,014**	**$ 2,143**	**$ 5,871**	$ 5,453

Amortization booked in 2005 was $359,000 (2004 - $336,000).

December 31, 2005 (tabular amounts in thousands of dollars)

13. Deferred Charges

	Cost	Accumulated Amortization	**2005** Net book Value	2004 Net book Value
Feasibility studies	$ 4,813	$ 3,315	$ 1,498	$ 866
Hearing costs	933	311	622	325
Downsizing costs	334	215	119	167
Dam safety review	231	142	89	26
Deferred financing costs	110	11	99	-
	$ 6,421	**$ 3,994**	**$ 2,427**	$ 1,384

14. Regulatory liabilities

	2005	2004
Insurance proceeds held on behalf of ratepayers		
Opening balance	$ 744	$ 744
Applied to Reserve for uninsured losses (notes 4 and 18)	(744)	-
Closing balance	-	744
Anvil Range Mine dewater revenue		
Opening balance	2,067	2,067
Applied to revenue shortfall YUB Order 2005-17 (note 4)	(291)	-
Closing balance	1,776	2,067
	$ 1,776	$ 2,811

15. Deferred revenue

	2005	2004
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of $3,438 (2004 - $3,168))	$ 7,789	$ 8,025
Sustainable energy development funds	2,617	2,690
	$ 10,406	$ 10,715

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

December 31, 2005 (tabular amounts in thousands of dollars)

16. Long-term debt

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

	2005	2004
The Toronto Dominion Bank $11,400,000 term facility by way of banker's acceptances, at a variable interest rate which resets quarterly (banker's acceptance discount rate plus stamping fee as at December 31, 2005 of 3.56%). Principal drawdowns are quarterly with the balance due on March 30, 2017 (see note 17 for interest rate swap agreement)	$ 10,711	$ -
TD Canada Trust $12,400,000 term note bearing interest at 7.81% payable in monthly installments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government	8,942	9,449
Great West Life $5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of $60,000 interest and principal with the final payment due July 2011	3,147	3,494
Government of Canada $40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to $1,000,000 principal, plus accrued interest	-	28,278
	22,800	41,221
Less current portion	1,748	1,239
	$ 21,052	$ 39,982

Government of Canada note
On March 30, 2005 the Corporation purchased the flexible term note from the Government of Canada for $11.3 million. At the time of the purchase the Utility carried this note at its face value of $28.278 million. As a result of the purchase, there has been a gain on the settlement of debt in the amount of $16.978 million.

Mortgage payable
The mortgage is secured by land and buildings described in note 10.

December 31, 2005 (tabular amounts in thousands of dollars)

16. Long-term debt - continued

Long-term debt repayment

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

2006	$	1,747
2007		1,860
2008		1,982
2009		2,125
2010		2,275
Thereafter		12,811
	$	**22,800**

Fair value

Fair value at December 31, 2005 of $24,869,000 (2004 - $50,132,000) for all long-term debt was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

17. Interest rate swap agreement

Interest rate swap agreements are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

The Corporation has entered into an interest rate swap agreement with The Toronto Dominion Bank to reduce its exposure to fluctuations in interest rates on a portion of its debt (note 16) by exchanging its interest payments calculated at a floating banker's acceptance discount rate (3.56% at December 30, 2005) for fixed payments calculated at 4.62%. The swap agreement originated on March 30, 2005 and matures on March 30, 2017 with quarterly net settlements. The notional amount of the interest rate swap, which is reset quarterly to match a portion of the principal on the debt, is $7,624,000 as at December 31, 2005.

The fair market value of the swap agreement as at December 31, 2005 was ($152,061).

18. Reserve for uninsured losses

		2005		2004
Balance, beginning of year	$	(797)	$	(679)
Provision		100		50
Transfer from Regulatory liabilities (note 14)		744		-
Losses incurred				
Asset replacement		(14)		(168)
Balance, end of year	**$**	**33**	$	(797)

December 31, 2005 (tabular amounts in thousands of dollars)

19. Contributions in aid of construction

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Contributions from customers since 1998	$ 3,354	$ 231	$ 3,123	$ 2,604
Pre - 1998 contributions	1,739	857	882	926
Government of Yukon contributions	2,080	533	1,547	1,617
	$ 7,173	**$ 1,621**	**$ 5,552**	$ 5,147

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

20. Pension costs and obligations

Yukon Energy Corporation, (the Utility) sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

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

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

Employees make contributions to the plan as follows:

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

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

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007. The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2005 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Royal Trust, the plan's custodian as at December 31, 2005. The plan assets are invested in a pooled balanced fund. The plan assets are invested as follows: equity investments (62.4%; 2004 - 60.5%), fixed income securities (34.6%; 2004 - 30.1%) and short term securities and cash (3.0%; 2004 - 9.4%).

December 31, 2005 (tabular amounts in thousands of dollars)

20. Pension costs and obligations - continued

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

		2005		2004
Discount rate - accrued benefit obligation		5.25%		6.00%
Discount rate - benefit costs		6.00%		6.50%
Expected long-term rate of return on plan assets		6.50%		6.50%
Assumed rate of salary escalation		3.00%		3.00%
Assumed rate of pension indexing		2.50%		2.50%
Expected average remaining service period of active employees		14 years		14 years
Benefit obligation determined by actuarial valuation	$	8,269	$	6,282
Fair value of plan assets		6,144		5,371
Plan deficit	$	2,125	$	911
Unrecognized amount				
transitional asset		203		220
net actuarial losses		(1,907)		(741)
Accrued benefit liability	$	421	$	390
Pension expense	$	337	$	286
Employer contributions	$	306	$	320
Employee contributions	$	110	$	132
Benefits paid	$	97	$	299

The accrued benefit liability has been recorded on the Utility's books of account and is included in accounts payable on the balance sheet.

Employees joining after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and to employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period is equal to the Utility's contribution to the plan. In 2005 these were $122,000 (2004 - $105,000).

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $428,000 (2004 - $425,000).

As at December 31, 2005, the Utility's defined pension plan had 40 members (2004 - 41) and the RRSP had 33 members (2004 - 34).

21. Contingencies

Mayo to Dawson City transmission line project

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

21. Contingencies - continued

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

Federal Transfer Agreement
Most of the assets of the Utility were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are several claims that the Utility has against Canada under the Transfer Agreement. The various claims are described below:

Yukon Energy Corporation claims against Canada

(i) Claim against Canada arising from requirement to obtain a fish authorization in relation to the Aishihik Facility
In January 2004, the Utility filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Utility in May, 1999 that the Aishihik Facility required an authorization under the Fisheries Act. The Utility alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that the Utility had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Utility incurred significant costs and expenses in negotiating and obtaining a Fisheries Act authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization. It is expected that a legal process will be initiated in 2006, resulting in damages being awarded to the Utility, which can not be reasonably estimated at this time.

(ii) Soil contamination at the Whitehorse Facility
The Utility has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was rectified in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Utility's claim of approximately $260,000 for indemnification arises under the Transfer Agreement. It is expected that this matter will be resolved in 2006.

22. Commitments

Aishihik Water License
The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

- annual payments of $25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- a Heritage Mitigation Plan. The Utility spent approximately $35,000 in 2005 on heritage projects, expects to spend up to $50,000 in 2006 and $30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
- annual fish monitoring programs.

22. Commitments

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

Mayo – Dawson Apprenticeship Benefits Agreement
Under this agreement, the Utility is obligated to annual payments of $15,000, adjusted by the percentage change in the Canadian consumer price index, to both The Tr'ondek Hwech'in and the First Nation of Nacho Nyak Dun. The agreement came into effect July 1, 2004 and expires June 30, 2024. The costs of meeting these requirements are expensed to Administration in the year to which they relate.

Mayo – Dawson Transmission Line Option Agreement
The Utility has provided an option to two Yukon First nations to acquire up to a $14,470,000 "indirect interest" in the Mayo-Dawson transmission line system project. The option agreement provides for issuance by the Utility of a long-term debt instrument repayable over forty years, bearing interest equal to the Utility's blended cost of capital of capital, including a component limited to the Utility's realized return on equity. The option expires on January 4, 2007. The option has not been exercised to date.

Funding of Energy Solutions Centre Programs
As part of the transfer of operations of the Canada Yukon Energy Solutions Centre to the Department of Energy, Mines and Resources, Yukon Development Corporation has agreed to provide funding of $400,000 per calendar year for 2006 and 2007 to be used for delivery of Energy Solutions Centre programs.

Rate Stabilization Fund
On March 30, 2005, the Yukon Government announced the continuation of the Rate Stabilization Fund from April 1, 2005 until 2007 with the Yukon Development Corporation required by OIC 2005/49 to contribute up to $9,000,000 of internally generated funds before April 1, 2007. At December 31, 2005, Yukon Development Corporation had contributed $2,960,018.

23. Environmental liabilities

Yukon Energy Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The 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. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

24. Risk management and financial instruments

The fair value of cash and cash equivalents, accounts receivable, restricted cash, diesel contingency fund, accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt and of interest rate swap agreements are described in notes 16 and 17 respectively. The Utility also has access to a $10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year end.

24. Risk management and financial instruments - continued

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

25. Non-consolidated financial information

The nature and size of operations of the Corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2005 are also prepared. The audited financial statements for the Energy Solutions Centre are included in Yukon Development Corporation's annual report.

26. Comparative figures

Certain 2004 figures, which are presented for comparative purposes, have been reclassified to conform with the current year's presentation.