

YUKON
ENERGY



2003 Annual Report





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MESSAGE FROM THE CHAIR

2003 was a challenging year for Yukon Energy. As in 2002, Yukon Energy's resources were very much focused on the building of the new transmission line from the Mayo hydroelectric facility to Dawson City. This was the largest capital project undertaken in the history of the Corporation, and its completion has been a significant achievement. The City of Dawson, which has been served with diesel-generated power since 1968, is now being served entirely by hydro. Furthermore, Yukon Energy has all but eliminated diesel generation from its system.

Other significant projects in 2003 included the design, planning and permitting for a boat launch facility at the north end of Aishihik Lake. This new facility is part of our ongoing cooperation with the Champagne Aishihik First Nations and is also a requirement of the water license for the Aishihik hydro generating facility.

In line with the Corporation's commitment to environmental stewardship, Yukon Energy completed the development of an ISO 14001 compliant corporate environmental management system. A site assessment was also conducted at the Dawson City diesel plant, to ensure compliance with the Yukon's Contaminated Site Regulations.

More than one hundred delegates from around the world attended the Yukon International Wind Energy Conference that took place in Whitehorse in May 2003. The conference focused on cold climate opportunities and was successful in terms of raising the profile of wind energy in the North and increasing cooperation between northern partners and jurisdictions.

As part of our commitment to the people and communities we serve, Yukon Energy awarded scholarships to six outstanding post-secondary students in 2003, and we are working with the Nacho Nyak Dun and Tr'ondek Hwech'in First Nations to develop and implement an apprenticeship benefit, as part of the commitments made while building the Mayo/Dawson City transmission line. Yukon Energy is also a strong supporter of community projects, and in 2003 made corporate donations worth more than \$77,000 to Yukon non-profit groups.

It has been an eventful year and I would like to take this opportunity to thank our customers for their business, and to assure them that we are committed to delivering an excellent product and service. Working and communicating with our stakeholders will continue to be a priority, as will our ongoing commitment to our community.

Providing a high level of customer service requires a dedicated and hardworking team of employees, and we are extremely fortunate to have such a team. I would like to thank all employees for their efforts over the past year in delivering safe, reliable and cost-effective electricity to Yukoners.

David Morrison

Chair, Board of Directors



ORGANIZATIONAL OVERVIEW

Established in 1987, Yukon Energy is a publicly-owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,900 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 116 megawatts of power. Seventy five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and 5 megawatts at Mayo), 39 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Water Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

VISION

Yukon Energy provides reliable and cost-effective energy services for customers throughout the Yukon.

MISSION

Provide a sufficient supply of safe, reliable electricity and related energy services to customers throughout the Yukon, while following sound business practices and demonstrating leadership in protecting the environment.

We undertake to:

- be responsive to our customers and their changing needs and expectations;
- commit to the safety and development of our employees;
- be cost-effective in the utilization and investment of resources, always remembering that we are spending the customer's money and making long-term decisions;
- place priority on the fundamentals; that is, safe and reliable electrical services;
- demonstrate the value of Yukon-based public ownership and management;
- act ethically and honestly treating employees, customers and others with fairness, dignity and respect; and
- build enduring relations with Yukon First Nations.

VALUES

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability



HUMAN RESOURCES HIGHLIGHTS

Yukon Energy employs approximately 67 highly skilled, dedicated and committed people in the communities of Whitehorse, Faro, Mayo and Dawson City.

We are committed to building and sustaining a secure and respectful workplace environment for our employees and customers. Our activities are guided by a set of values based on respect, integrity, accountability, safety, service and teamwork.

In 2003, Yukon Energy conducted a comprehensive review of electronic material accessed and stored on corporate computers, as part of our legal and ethical responsibility. We were highly praised publicly for the respectful yet effective way we carried out this review.

Increasing demands for skilled workers and an anticipated labour shortage present a major challenge not only for Yukon Energy but nationally and globally as well. Our demographics will see increasing retirements and departures from Yukon Energy in the coming years. Our senior managers are actively engaging in strategic succession planning in order to address this critical area of importance.

2003 was not without its challenges. It was an extremely busy year for a number of employees because of the commissioning of the Mayo to Dawson City transmission line – the largest capital project in the Corporation’s history. 2003 also brought considerable changes to Yukon Energy with the appointment of a full time Chair of the Board of Directors and the retirement of a long-term senior manager. These positions represent key

leadership roles within the organization. In terms of recruitment, we hired six new employees, plus four students.

The Corporation is a strong proponent of investing in our employees, and in 2003 we spent a considerable amount of effort on staff training in just about every area of our operation. We will continue to provide professional development to our staff to ensure the Corporation can offer the highest quality service possible.

It’s important to Yukon Energy that we celebrate the achievements of our employees. We would like to congratulate Gary Jones, our Faro employee, for receiving the Queen’s Golden Jubilee Medal in 2003 for outstanding volunteer work in his community. We were also pleased to present 12 employees with Long Service Awards.

2003 Long Service Awards:

- 25 years Les Boisvert
- 20 years James Paton
- 10 years Mike Hannah
- 5 years Tom Debolt
 - Wendy Fendrick
 - Bob Gingras
 - Linda Greer
 - Daniel Jirousek
 - Colleen Johnston
 - Pat Marcoff
 - Brian Power
 - Tara Schultz



OPERATIONAL HIGHLIGHTS

Operational Summary

Generating Capacity (in MW)	2003		2002		2001		2000		1999	
Hydro	75		75		75		75		75	
Diesel	40		40		40		40		45	
Wind	1		1		1		1			
Total	116		116		116		116		120	
Peak Demand (in MW)	2003		2002		2001		2000		1999	
WAF System	51		47		51		48		51	
Mayo	5		3		3		3		3	
Dawson	3		3		3		3		3	
Total	59		53		57		54		57	
Generation (in GWh)	2003		2002		2001		2000		1999	
Whitehorse Rapids	208		169		141		187		195	
Aishihik	61		86		107		56		38	
Mayo	13		7		8		9		10	
Wind	1		1		1		0		0	
WAF Diesel	0		1		0		1		12	
Other Diesel	11		15		15		15		15	
Total	294		279		272		268		270	
Electric Sales	2003	2003	2002	2002	2001	2001	2000	2000	1999	1999
(in \$000, and MWh)	(\$000)	(MWh)	(\$000)	(MWh)	(\$000)	(MWh)	(\$000)	(MWh)	(\$000)	(MWh)
Residential	1,370	10,001	1,359	9,662	1,288	9,564	1,325	9,887	1,372	10,321
General Service	2,103	13,375	2,094	12,829	1,963	12,547	1,954	12,426	1,959	12,390
Industrial	36	452	74	884	128	2,128	154	2,922	205	3,692
Wholesale	20,547	243,010	20,109	229,002	18,685	222,396	18,883	221,329	19,357	223,643
Other	78	269	80	269	75	261	72	240	288	227
Total	24,134	267,107	23,716	252,646	22,139	246,896	22,388	246,804	23,181	250,273
Cents Per kWh	2003		2002		2001		2000		1999	
Residential	13.70¢		14.07¢		13.46¢		13.41¢		13.29¢	
General Service	15.73¢		16.32¢		15.64¢		15.72¢		15.81¢	
Industrial	8.05¢		8.39¢		6.00¢		5.28¢		5.56¢	
Wholesale	8.46¢		8.78¢		8.40¢		8.53¢		8.66¢	
Other	29.20¢		29.57¢		28.70¢		30.06¢		126.91¢	
Overall	9.04¢		9.39¢		8.97¢		9.07¢		9.26¢	

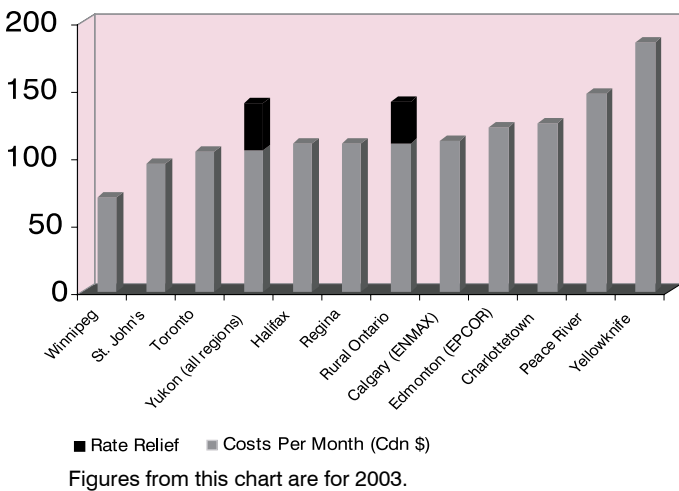


Electricity rates

Yukon Energy was once again able to avoid increasing electrical rates in 2003. This is the seventh consecutive year that rates have remained stable.

There is further good news in that the Yukon government made some changes this year to the Rate Stabilization Fund (RSF) that will allow eligible Yukoners to receive a full subsidy on their power bills throughout the year and not just in the winter. In the fall the Yukon government issued an Order in Council repealing the Rate Stabilization Fund summer clawback instituted several years ago. The repeal of the clawback means that eligible residential and commercial customers will save an additional one to six per cent on their power bills. The repeal of the clawback will add approximately \$320,000 to the cost of the RSF program.

A Comparison of Canadian Residential Electricity Bills (1000 kWh Non-Government Customer)



Governments have over the years supported and even funded a series of rate relief programs. These programs have been funded by government contributions or at times directly by the Yukon Development Corporation. In recent years the territorial government provided a \$10 million contribution to fund the Rate Stabilization program. This fund has now been depleted and the program is being operated from internal funds provided by the Yukon Development Corporation. According to the latest Order in Council, the program will run through

April 2005. The annual cost of the Rate Stabilization program is approximately \$3.5 million.

KEY OPERATIONAL ACTIVITIES AND ISSUES

Mayo-Dawson Transmission Line

In 2003, Yukon Energy completed and began operating the Mayo-Dawson transmission line. It was the largest capital project ever undertaken by the Corporation and we are proud of this significant achievement. The project involved building a 232 kilometre long transmission line and related infrastructure to connect the City of Dawson to the Mayo hydroelectric station. When the line started operating on September 10, 2003, Yukon Energy was able to meet all of Dawson City's electricity demands with clean surplus hydro electricity. By replacing diesel with clean hydro power, this project will reduce greenhouse gas by 10,000 tonnes each year. The new power line also provides reliable electricity to residences and businesses along the transmission route – enhancing the potential for new or expanded local business opportunities. It will also save ratepayers some \$20 million in today's dollars over the 40 year life of the line.

The project has not been without its challenges. Initially, the new line was to be commissioned by late 2002. However, we found that we needed an additional several months to solve a number of routing, design, technical and installation challenges as well as a series of contract related matters. The project, which came on line September 10, 2003, will cost an estimated \$36.2 million and is significantly over its original budget estimate of \$27.2 million. As a result the Auditor General was asked to conduct a Special Examination Audit. The Auditor General will provide the results of the audit to Yukon Energy and will table the results in the Yukon Legislature as part of its Report on Other Matters.

We are now working to resolve a number of project-related legal disputes and claims with the general contractor for the project and hope to have this dealt with during 2004. The claims and counter claims associated with the project are significant and range in cost upwards of several million dollars. The cost of the claims is not included in the estimated project cost of \$36.2 million, so



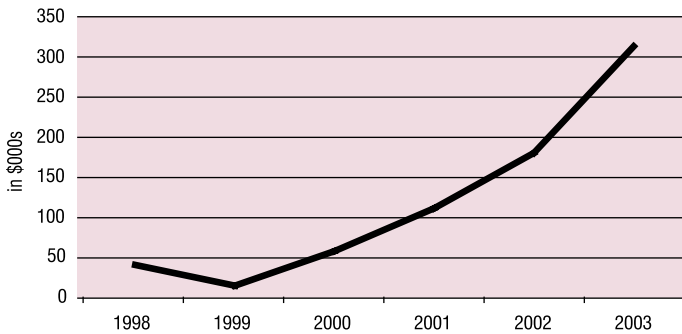
the resolution of these claims will add to the total project price tag and will reduce long-term economic benefits.

As part of the project planning and budgeting process, Yukon Energy arranged flexible financing for the Mayo Dawson line that ensures rate payers are not impacted by cost increases and project overruns. This flexible financing will ensure that the costs applied to rates will be no more than it otherwise would have been on the diesel system. The Yukon Development Corporation will cover all cost increases by forgiving interest payments during the period where the cost of the line will exceed the cost of running the diesel units. It is expected that YDC will forgive interest for the first five years of the line's operation. Interest forgiveness for 2003 (September to December) amounted to \$438,000 and is forecast to be \$1.4 million for 2004.

Secondary Sales

Currently, Yukon Energy has the ability to produce more hydro-generated electricity than it needs for its customers. To take advantage of the economic and environmental benefits of this surplus power, the Corporation developed a Secondary Sales Program.

Yukon Energy Annual Secondary Power sales



This program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive. However, there are some stipulations: the service is limited and is fully interruptible, and the business must maintain a fossil fuel heating system that can be re-activated on 24 hours notice. The business must also be located in an area that is served by hydro-generated power.

Customers can purchase secondary power at a rate of 3.3 cents per kilowatt hour, as approved by the Yukon Utilitis Board. On the Whitehorse grid, Yukon Electrical receives 1.1 cents and Yukon Energy keeps 2.2 cents. The Secondary Sales Program helps customers save 10 per cent or more on heating bills. It also helps Yukon Energy to earn more revenue than it otherwise would and it displaces the use of diesel fuel for heating, which lowers the Yukon's greenhouse gas emissions. In 2003, there were 17 secondary sales customers and sales under this program increased 71 per cent from 2002. The total secondary energy consumed by these customers translated into a reduction of about 5,417 tonnes of greenhouse gas emissions.

Small Hydro Assessment

In 2003, Yukon Energy along with Yukon Development Corporation started a multi-phased small hydro assessment project. The initial phase of work resulted in the development of a model and a database that can be used to assess information available from hydro studies. This database contains numerous information fields to be completed as work progresses. Then, using the database, a template will allow sites to be ranked according to environmental, energy, economic, technical, social and regulatory factors. The model provides significant flexibility by allowing users to apply different weights to the factors in order to evaluate and rate the potential of different hydro sites.

Seven potential hydro sites in the Watson Lake/Teslin area and six in the Mayo/Dawson region of the Yukon were then reviewed, assessed, and ranked, and a report on the potential for these sites was produced. In the Mayo and Dawson corridor, the report concluded that the two sites that had the most potential were in Mayo, between the existing Mayo powerhouse and the downstream end of the Mayo River canyon. In the Watson Lake and Teslin area, the most promising sites included McNaughton Creek and Surprise Lake.

The results of this small hydro project assessment will be invaluable in future efforts to develop small-scale hydro generation sites.



Infrastructure Management and Planning

As you can imagine, Yukon Energy has hundreds of assets: everything from generating plants to power poles. This year we started developing a 20-year plan that will help us determine what state each of our assets is in, what kind of maintenance they'll need in the short, medium and long term, and how long it will be before they'll have to be replaced.

We are also looking into possibilities for extending our hydro grid to communities that now must rely on diesel for their power. For example, we started work to determine the feasibility of providing Atlin, B.C. with hydro via a 96 kilometre transmission line from Jakes Corner in the Yukon. We will continue to explore this possibility in 2004 with BC Hydro.

Aishihik Generator Refurbishing

This summer, one of the electrical generators at our Aishihik plant got a new lease on life. After 28 years of use, the unit had deteriorated – in part because of relatively high humidity levels at its location 400 feet underground and partly because of its many years of hard work.

This was a major maintenance project. It gave us a chance to use new electrical technology to increase the capacity of the generator by about 10 per cent. Within the next few years, Yukon Energy plans to refurbish its second Aishihik generator.

A Dramatic Malfunction

In February one of the turbines in the Whitehorse plant malfunctioned in a rather dramatic fashion. Employees noticed that the unit was vibrating and there was smoke coming from around the piece of equipment. They immediately shut it down, and after an initial inspection found that one of the unit's four propeller blades had cracked to the point where it was only hanging on by a few inches at one end. Further cracking would have sent it flying into the Yukon River. A turbine specialist was called in to further investigate this very unusual occurrence. The equipment was shipped to southern Canada for repairs and measures were taken to reduce the possibility of this same damage occurring with the other turbine blades. The turbine was back in service by the summer.

Whitehorse Rapids Fishway

The Whitehorse Fishway, built at the same time as the dam (1958) to help migrating salmon bypass the dam to reach their spawning grounds, had another successful season this year. The fishway, which is owned by Yukon Energy and operated by the Yukon Fish and Game Association, is one of the Yukon's most popular tourist attractions. This summer, about 28,000 visitors came to view the salmon, which can be seen through underwater viewing windows. In 2003, 1443 salmon went through the fish ladder, compared with 605 the previous year.

Despite this success (and perhaps partly because of it), the existing viewing centre is nearing the end of its useful life. This year we worked with consultants on creating a plan for a redeveloped world-class facility. We plan to further investigate the possibility of proceeding with this project in 2004 and 2005.

Whitehorse Fish Hatchery

We signed a three-year hatchery funding agreement with the Yukon government's Department of Environment in 2003. The agreement sees Yukon Energy and the Yukon government jointly and equally sharing the operating and maintenance costs of the fish hatchery. The cost of operating the hatchery this year was just over \$176,000. R & D Environmental administers, manages and operates the facility by way of a contract with Yukon Energy.

Also this year, our parent company Yukon Development Corporation signed a three year agreement with R & D Environmental to support and fund a training opportunity for a Kwanlin Dun First Nation member in the area of aquiculture, fish husbandry and hatchery operation. A part time position was created and has now been staffed. In addition to providing back up to the current full time hatchery staff, duties for the new position include development of interpretive and educational programs in schools, fairs and at the Whitehorse Rapids Fishway.

The fish hatchery began operating in 1984 to counteract the numbers of migrating Chinook salmon fry being affected by our power plant. The facility operates year round, and produces not only Chinook salmon fry but also a variety of freshwater fish including arctic char, lake trout, rainbow trout and bull trout. These fish are used



to stock pothole lakes in the southern Yukon, including Hidden, Long and Gloria Lakes, among others.

In 2003, the hatchery had approximately 11,500 freshwater fish in its tanks, and about 142,000 Chinook salmon.

The release of Chinook fry into Wolf Creek every June is a popular family event.

HEALTH, SAFETY AND ENVIRONMENT HIGHLIGHTS

Safety for our staff and for the general Yukon population is an on-going priority with Yukon Energy. This year, we provided some critical safety training to our operational staff. This included instruction on how to respond to oil spills, and first aid training.

We also completed an Emergency Preparedness Plan for the Aishihik dam site as part of the requirements of our recently renewed (in 2002) water licence for this facility. We continue to monitor and report on the safety of all of our dams.

Greenhouse Gas Emission Reductions

On the environmental front, the completion of our Mayo/Dawson City transmission line means we have all but

Greenhouse Gas Emissions

Carbon Dioxide (CO ₂)	2004 projected	2003	2002
Total Net Annual CO ₂ Emission – Fossil-fuel related (Tonnes)	736	8,604	11,922

Sulphur Dioxide (SO ₂)	2004 projected	2003	2002
Total Net Annual SO ₂ Emission (Tonnes)	1.5	19.2	27.5

Nitrogen Oxides (NO _x)	2004 projected	2003	2002
Total Net Annual NO _x Emission (Tonnes)	10.7	137.7	197.4

eliminated the use of diesel fuel. We are producing 28 fewer tonnes of greenhouse gas emissions each day as a result of this initiative.

For the third consecutive year, Yukon Energy has been awarded the Gold Level Reporter award for tracking, reporting and reducing carbon dioxide emissions. This is an honor we share with only about 100 other companies across Canada. This award is from the National Voluntary Climate Change Registry, a non-profit industry/government national partnership that works to address climate change.

Environmental Standards of Operation

As a member of the Canadian Electricity Association, Yukon Energy is required to comply with the ISO-14001 environmental standards. During 2003, as part of regular conformance testing, an auditor did an analysis of our environmental management system. As a result of the work, some areas of non-conformance were identified. For example, emergency preparedness plans hadn't been established for all our hydro facilities. As well, we had set far too many operating principles in our environmental policy, making it impossible to fulfill all of them.

As a result of the auditor's recommendations, we now have emergency preparedness plans for all our facilities and have revised our environmental policy to include just nine key operating principles that we can realistically adhere to.

Wind Energy

One of the highlights for us this year was the Yukon International Wind Conference, which we hosted along with Yukon Development Corporation and the Energy Solutions Centre. The conference provided a wonderful opportunity for more than 100 delegates from Canada, Australia, France, Finland and the United States to share advances in cold climate technology. It was very successful in terms of raising the profile of wind energy in the North and increasing cooperation between northern partners and jurisdictions.

We continued our Community Wind Resource Assessment Program this year - a service we offer free of charge to homeowners and businesses in remote areas of the Yukon. This initiative allows us to provide



information that will help customers make informed decisions about the appropriateness of using wind power. This year we assessed several sites, including the Eagle Plains Lodge on the Dempster Highway, the Champagne and Aishihik First Nations' Aishihik airport location, and a site near Teslin.

In order to assess the potential for wind generated power, Yukon Energy also does its own wind monitoring. The Corporation typically operates about three monitoring stations per year throughout the territory. In 2003, Yukon Energy had monitoring stations located at Haeckel Hill near Whitehorse, Fox Ridge on the South Klondike Highway and Ferry Hill, near Stewart Crossing.

We also worked with the Vuntut Development Corporation to do wind monitoring on Crow Mountain, and worked with the Kluane First Nation to study the potential for economic wind energy production in the Destruction Bay area.

Fish Habitat Protection

2003 was the fourth consecutive year of a long-term whitefish monitoring program at Aishihik Lake. This program was initiated in 1999, with the goal of preserving the lake whitefish population of Aishihik Lake and ensuring that no significant adverse effects to the lake whitefish fishery result from the operation of the Aishihik Hydro generating facility. A management regime is now in place to respond to any significant changes attributable to the hydro operations, at an early enough stage to minimize effects on the fishery.

Together with the Yukon Development Corporation, Yukon Energy provided \$20,000 this year for the following fish surveys:

Teslin Lake Catch per Unit Effort Survey

This survey was done in June in cooperation with the Teslin Tlingit Council and the Teslin Renewable Resources Council. The results indicate there hasn't been any significant recovery of the lake trout stock since the last such survey was done in 1997.

Teslin Lake Angler Harvest Survey

This was conducted in cooperation with the Teslin Renewable Resource Council from June to September. The survey shows that anglers are catching and

releasing significant numbers of larger lake trout and that the daily catch limit of one lake trout and maximum size limit of 65 centimetres is effective in reducing harvest and protecting lake trout stocks.

Catch per Unit Effort Survey on Schwatka Lake

This survey was done in May and shows that northern pike is the predominant species in Schwatka Lake, although round whitefish and lake trout are also prevalent.

The information collected provides much needed details about freshwater fisheries stocks in parts of the southern Yukon and will lead to better resource management and decision making.

CORPORATE CITIZENRY - HIGHLIGHTS

Rotary Centennial Bridge (Millennium Trail Pedestrian Bridge)

Yukon Energy has been a major supporter of the Millennium Trail – a paved walkway that stretches on either side of the Yukon River in the vicinity of the Corporation's Whitehorse hydro operation. It is the first trail in Whitehorse that is accessible to people in wheelchairs and has been used by hundreds of visitors and residents since it opened this year. Also in 2003, work proceeded toward the planning and final design of a bridge that would span the Yukon River and join the two sections of the trail to make a continuous loop. Yukon Energy contributed \$100,000 towards the trail and bridge.

Community Donations

Yukon Energy continues our commitment to Yukoners by participating actively in community events and by sponsoring non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than \$77,000 to almost 100 community groups in 2003. The list covered everything from sports and recreation, the arts, tourism, education, and health and social services. Here are just a few examples of how we have been able to help community groups this year....

Faro 212 Air Cadets

"We used Yukon Energy's donation to help us create a digital logo for our squadron. This will be useful for our letterhead, and for trophies and plaques."



Mayo Fly-By-Night Running Club (Midnight Marathon)

“Yukon Energy’s contribution helped us to purchase race T-shirts and medals for all participants. The T-shirts and medals gave participants a memento of the race, and they help us to market the race for the future.”

Assante Templars U16 Boys Soccer Team

“Yukon Energy very generously donated money for sports bags that we used at the National Soccer Championships in B.C. The bags helped us look and feel more like a professional sports team, and we continue to make good use of them.”

Learning Disabilities Association Yukon - Whitehorse

“Yukon Energy’s donation helped us to sponsor a child in our summer camp. The purpose of the summer camp is to help children with learning disabilities to develop social skills and improve self-esteem. The camp is an opportunity for kids who are often stressed due to a disability to relax and learn with other kids.

The camp runs for eight weeks in summer, and many of the attendees are from low-income families. This camp really helps kids go from tears to smiles. It also provides a respite for parents. If it weren’t for sponsorship, these kids wouldn’t be able to attend and have one of the best experiences of their lives.”

Scholarships

Yukon Energy, in partnership with the Yukon Development Corporation, also provides several scholarship opportunities for Yukon students. These scholarships are a significant investment in our communities and symbolize our ongoing belief in the potential of the young people in the territory.

Yukon Energy Scholarship – General Component – Two-year Scholarship

Each year, Yukon Energy and the Yukon Development Corporation award these scholarships to two students pursuing studies in natural sciences, technologies, commerce, business administration or engineering. The value of the scholarships is \$4,000 over two years.

Yukon Energy Scholarship – Francophone Component – Two-year Scholarship

This year, Yukon Energy and the Yukon Development Corporation, in partnership with the Bureau of French Language Services, were proud to introduce a

Francophone component of these scholarships. Based on the same criteria and evaluation process as the general component, one scholarship was awarded to an eligible Francophone student. The scholarship is valued at \$4,000 and is dispersed over two years.

Yukon Energy Scholarship – First Nation Component

Yukon Energy was also pleased to deliver the second year of scholarships to students from the Nacho Nyak Dun and Tr’ondëk Hwëch’in First Nations. A total of \$6,000 is awarded and is divided equally between the two First Nations.

YUKON UTILITIES BOARD ORDERS

In January 2003, in Board Order 2003-02, the Yukon Utilities Board accepted Yukon Energy’s application to reduce a revenue rider (“Rider J”) by 3.81 per cent to 14.93 per cent. The rider had originally been set at 18.74 per cent in 1999. While rates went down due to the lower rider, the draw on the Rate Stabilization Fund also decreased and therefore most customers did not see any net change on their monthly electricity bills.

A rider is an adjustment on customers’ electrical bills to cover unanticipated costs. In the case of “Rider J”, also know as the Revenue Shortfall Rider, it was established after the Faro mine shut down. “Rider J” was reduced this year to reflect the end of the five-year amortization of one-time costs associated with the mine closure.

CHALLENGES FOR 2004

One of Yukon Energy’s major challenges in the coming year will be to prepare for a new corporate structure. The Yukon government has asked our Chair to develop a proposal that will allow Yukon Energy, along with our parent Yukon Development Corporation and our sister the Energy Solutions Centre to remove duplication, reduce costs and simplify organizational structures.

Other challenges for 2004 will include evaluating the need to bring forward a General Rate Application, negotiating a contract with our unionized employees, resolving outstanding legal disputes and completing our 20-year infrastructure plan.



BOARD OF DIRECTORS

David Morrison, Chair; Shirley Abercrombie; Martin Allen; Fred Blanchard; Ed Chambers; Carl Charlie; Pat Irvin

SENIOR MANAGEMENT

Don Willems, President and C.E.O.

Les Boisvert, Director Health, Safety & Environment

Hector Campbell, Director, Business Development & Resource Planning

Erik Hoenisch, Chief Financial Officer

Linda Greer, Manager, Human Resources

Alex Love, Director, Technical Services

Dave Wray, Director, Operations

FINANCIAL HIGHLIGHTS

Total revenues for this year were approximately \$25-million. That’s an increase of \$244,000, or one per cent, from 2002. A more general picture shows that while our revenues have grown over the last few years, they are still substantially lower than when the Faro mine was operating. In 1997 for example, which was the final year the mine was running, our total revenue was close to \$32-million.

Secondary sales increased during the year with the addition of nine new customers, including the Whitehorse General Hospital. We received \$315,000 for secondary sales in 2003.

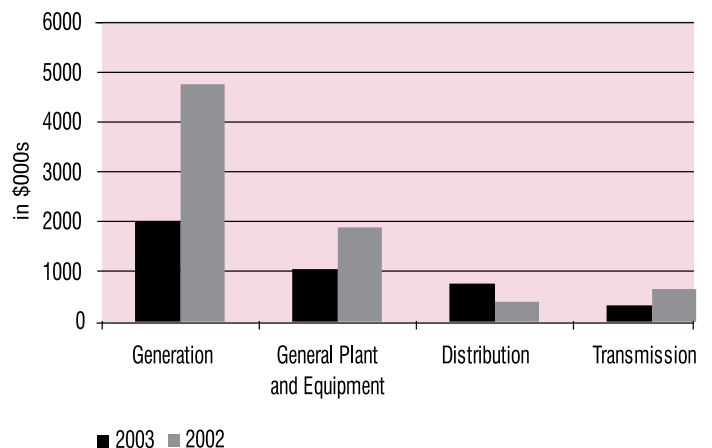
Administration expenses in 2003 increased by \$343,000 or 5.4 per cent from the previous year. A large part of this increase can be attributed to legal costs incurred while trying to recover money owed by the bankrupt Elsa mine. Fuel costs decreased by \$279,000 (22.1 per cent) from 2002 as a result of diesel-powered generation in Dawson being replaced by hydro-power from the Mayo-Dawson transmission line.

The most significant capital projects in 2003 were the Mayo-Dawson transmission line and its related infrastructure, and the refurbishing of a turbine at the Aishihik facility. The Mayo-Dawson transmission line, as mentioned previously, was financed partially through a loan from Yukon Development Corporation. Because of some legal disputes between Yukon Energy and the contractor, the cost of the transmission line project has not been finalized, although it is expected to be \$36.2 million plus the cost of resolving contractor claims. The Yukon Development Corporation also contributed \$5.8 million of the total project costs. These funds are provided as contributed capital and will not earn a return for Yukon Energy. This contribution, along with the terms of the flexible financing provided by Yukon Development Corporation, will help to offset the impact of the project on future electrical rates.

Outlook

Yukon Energy continues to look for opportunities to sell our surplus hydro generated power. We are actively pursuing an initiative to sell electricity to BC Hydro to replace diesel generated power in Atlin, B.C. This would entail construction of a 96 kilometre transmission line. As well, increasing metal prices may open up new business possibilities for us by way of potential new exploration and mining operations.

**Capital expenditures
(excluding Mayo-Dawson project)**





FINANCIAL SUMMARY

(in \$000s)

	2003	2002	2001	2000	1999	1998
Revenue						
Sales of power	24,199	23,786	22,242	22,386	23,181	24,534
Recovery of costs (Note 1)	488	539	513	894	-	-
Other	152	270	190	149	196	\$59
Total Revenue	24,839	24,595	22,945	23,429	23,377	24,593
Expenses						
Administration	5,057	4,723	4,079	3,688	3,626	3,676
Insurance	1,226	1,166	748	660	661	662
Operations and Maintenance	4,285	4,036	3,871	4,099	4,298	3,789
Fuel	980	1,259	1,337	1,314	1,316	2,154
Recoverable costs (Note 1)	488	539	513	894	-	-
Bad debt write-offs	-	-	-	3,155	-	-
Amortization	5,866	5,536	5,249	4,954	5,042	4,816
Finance charges	3,675	3,823	4,376	4,339	4,292	4,677
Interest income and Allowance for funds used during construction	(904)	(318)	(475)	(612)	(347)	(36)
Total Expenses	20,673	20,764	19,698	22,491	18,888	19,738
Net Income	4,166	3,831	3,247	938	4,489	4,855
Capital Assets						
At cost (net of contributions)	201,488	193,874	167,966	159,980	154,424	144,058
less: accumulated depreciation	53,919	49,453	44,920	40,530	36,410	33,043
Net Book Value	147,569	144,421	123,046	119,450	118,014	111,015
Capital expenditures (net of contributions)	8,788	26,866	8,538	4,756	11,326	3,984
Return on Equity						
Achieved	6.78%	8.79%	7.87%	7.92%	9.13%	9.11%
Allowed	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%

Note 1: Recoverable costs are from the corporation's parent and as part of an insurance claim



AUDITOR'S REPORT

Mr. David Morrison
Chair, Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2003 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 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act*, the *Business Corporations Act*, the *Waters Act* and the bylaws of the Corporation.

Ronald C. Thompson, CA
Assistant Auditor General
For the Auditor General of Canada
Ottawa, Canada
April 2, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

Erik Hoenisch, CA
Chief Financial Officer
April 2, 2004



Yukon Energy Corporation

Balance Sheet

(in thousands of dollars)

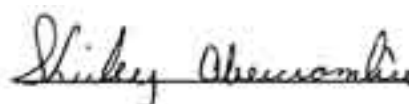
As at December 31,	2003	2002
Assets		
Current		
Cash and cash equivalents	\$ 968	\$ -
Accounts receivable (note 3)	4,225	4,742
Inventories	2,575	2,360
Prepaid expenses	558	702
	8,326	7,804
Funds held in trust (note 4)	602	3,479
Diesel contingency fund (note 5)	755	734
Property, plant and equipment (note 6)	158,512	155,116
Reserve for uninsured losses (note 7)	679	346
Deferred charges (note 8)	6,578	6,613
	\$ 175,452	\$ 174,092
Liabilities		
Current		
Bank indebtedness (note 9)	\$ -	\$ 2,872
Short-term debt (note 10)	-	16,000
Accounts payable (note 4)	4,028	5,723
Dividend payable	3,444	-
Current portion of long-term debt (note 12)	1,235	773
Regulatory liabilities (note 13)	2,518	2,169
	11,225	27,537
Deferred revenue (note 14)	8,995	9,175
Contributions in aid of construction (note 11)	10,943	10,695
Reserve for future removal and site restoration costs	5,143	4,875
Diesel contingency fund (note 5)	755	734
Long-term debt (note 12)	82,540	65,947
	119,601	118,963
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	16,851	16,129
	55,851	55,129
	\$ 175,452	\$ 174,092

Contingencies (notes 19 and 20)

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

Approved by the Board

 Chair

 Director



Yukon Energy Corporation

Statement of Income and Retained Earnings (in thousands of dollars)

For the year ended December 31,	2003	2002
Revenue		
Sales of power	\$ 24,199	\$ 23,786
Other	640	809
	24,839	24,595
Operating expenses		
Administration (note 15)	6,721	6,378
Operations and maintenance (note 16)	5,265	5,295
Amortization of property, plant and equipment	5,473	5,212
Amortization of deferred charges	595	478
	18,054	17,363
Income from operations	6,785	7,232
Other income		
Allowance for funds used during construction	900	203
Amortization of capital assistance	202	154
Interest income	4	115
	1,106	472
Other expenses		
Interest on long-term debt	3,675	3,823
Provision for uninsured losses (note 7)	50	50
	3,725	3,873
Net income	4,166	3,831
Retained earnings, beginning of year	16,129	12,467
Dividend	(3,444)	(169)
Retained earnings, end of year	\$ 16,851	\$ 16,129

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



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

For the year ended December 31,	2003	2002
Cash provided from Operations		
Cash receipts from customers	\$ 25,483	\$ 26,364
Cash paid to employees and suppliers	(11,601)	(13,466)
Interest paid	(3,802)	(3,836)
Interest received	4	146
	10,084	9,208
Cash provided from Financing		
Net proceeds from financing	2,000	6,000
Repayment of long-term debt	(814)	(648)
Contributions in aid of construction	322	259
	1,508	5,611
Cash used for Investment		
Additions to property, plant and equipment	(7,752)	(25,788)
	(7,752)	(25,788)
Net increase (decrease)	3,840	(10,969)
Cash and cash equivalents (bank indebtedness), beginning of year	(2,872)	8,097
Cash and cash equivalents (bank indebtedness), end of year	\$ 968	\$ (2,872)
Cash and cash equivalents consists of:		
Bank balances	968	216
Short-term investments	-	3
Bank overdraft	-	(1,991)
Operating line of credit	-	(1,100)
	968	(2,872)

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



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Corporation") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a Yukon Crown Corporation. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The financial statements of the Corporation have been prepared by management and conform to Canadian generally accepted accounting principles and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting practices adopted by the Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of the Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of the significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long the Corporation 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.

Rate regulation

The Corporation is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act (Canada)* and the Yukon Utilities Board (YUB) pursuant to the *Public Utilities Act (Yukon)*. The regulatory process begins when the Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon Utilities Board 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 follows a two-stage decision process. In the first stage the total costs that the utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

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

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

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



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

Normally, the Corporation applies for rates in advance of the applicable years. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Property, plant and equipment

Property, plant and equipment is 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 40 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	8 to 14 years
Other equipment	5 to 15 years

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

Inventories

Diesel fuel, materials and supplies are recorded at average cost.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

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

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 on a straight-line basis over five years.

Generating 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.



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

Diesel fuel price adjustment

With respect to the cost of diesel fuel used in generation, the Corporation is authorized by Order-In-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel costs from approval levels are deferred and recovered or refunded over designated future periods prescribed by the Yukon Utilities Board through revised rates charged to customers. The balance at December 31 is disclosed as Rate adjustment receivable in accounts receivable (see note 3).

Reserve for uninsured losses

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

Contributions in aid of construction

Certain property plant & equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Corporation's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is shown on the statement of income as an offset to amortization expense while amortization of capital assistance from the parent is disclosed separately.

Reserve for future removal and site restoration costs

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

Revenue recognition

Revenue from the sale of power is recognized based on cyclical meter reads. Sales of power includes an accrual for electricity deliveries not yet billed.

Use of estimates

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, capital assets, the reserve for future removal and site restoration and other long-term receivables. Actual results could differ from these estimates.

3. ACCOUNTS RECEIVABLE

	2003	2002
Wholesale energy sales	\$ 2,442	\$ 2,745
Other	1,026	1,236
Retail energy sales	641	505
Rate adjustment receivable	116	256
	\$ 4,225	\$ 4,742



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

Accounts receivable includes \$2,506,120 (2002 - \$2,528,000) due from The Yukon Electrical Company Limited. The Corporation's sales to The Yukon Electrical Company Limited were approximately \$16,017,000 (2002 - \$15,288,000) but, due to the wholesale nature of the sales, the Corporation is not economically dependent on them.

4. FUNDS HELD IN TRUST

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

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

5. DIESEL CONTINGENCY FUND

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

	2003	2002
Opening balance	\$ 734	\$ 682
Interest	21	52
Closing balance	\$ 755	\$ 734

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2003 Net book Value	2002 Net book Value
Hydro-electric and diesel plants	\$ 132,345	\$ 38,001	\$ 94,344	\$ 93,872
Transmission	51,701	7,739	43,962	12,834
Distribution	12,057	4,178	7,879	6,983
Buildings and other equipment	13,830	5,037	8,793	9,189
Transportation	1,354	359	995	982
Land and land rights	1,065	-	1,065	677
Construction-in-progress	1,474	-	1,474	30,579
	\$ 213,826	\$ 55,314	\$ 158,512	\$ 155,116

Property, plant and equipment classified as Transmission include a transmission line from the Mayo Hydro Generating Station to Dawson City. The line was constructed to replace diesel generation in Dawson City with hydro-generated power. The project economics are forecasted to be less than the present value of the future costs of operating a diesel plant. As described in Note 12, the structure of the project financing ensures that, for



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

a given year, there is no increase in the total costs to provide electricity to customers. The line was under construction in 2002 and \$21.7 million in costs was included in Construction-in-progress at December 31, 2002. The line came into service on September 6, 2003.

Total costs (net of capital assistance from the parent of \$5.8 million) incurred to December 31, 2003 are \$27.7 million. Additional costs will be incurred in the future to correct deficiencies with the line. As well, costs incurred to settle claims, by and against the contractor, as described in Note 19, will be capitalized. Any recoveries from the contractor will be offset against the project costs.

As discussed in Note 12, financing for these assets was secured from the parent.

The Corporation will be applying to the Yukon Utilities Board for approval to include the cost of the line in rate base.

7. RESERVE FOR UNINSURED LOSSES

	2003	2002
Opening balance	\$ 346	\$ 291
Provision	(50)	(50)
Losses incurred		
Weather-related losses	-	72
Asset replacements	383	33
Closing balance	\$ 679	\$ 346

The Corporation will be applying to the Yukon Utilities Board for approval to increase the annual provision.

8. DEFERRED CHARGES

	Cost	Accumulated Amortization	2003 Net book Value	2002 Net book Value
Relicensing	\$ 6,350	\$ 791	\$ 5,559	\$ 5,736
Feasibility studies	843	212	631	522
Deferred downsizing costs	334	120	214	248
Regulatory expenses	121	-	121	-
Dam safety review	135	82	53	37
Generating equipment overhauls	348	348	-	70
	\$ 8,131	\$ 1,553	\$ 6,578	\$ 6,613

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



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

9. BANK INDEBTEDNESS

	2003	2002
Bank overdraft	\$ -	\$ 1,772
Operating demand line of credit	-	1,100
	\$ -	\$ 2,872

Balances outstanding under the bank overdraft facility accrue interest at the bank prime rate. The operating demand line of credit allows the Corporation to borrow up to \$10,000,000 at bank prime. The overdraft facility and operating demand line of credit are guaranteed by the Yukon Government.

10. SHORT-TERM DEBT

	2003	2002
Operating loan	\$ -	\$ 10,000
Promissory note	-	6,000
	\$ -	\$ 16,000

The operating loan was a demand loan held by the parent, Yukon Development Corporation, and represented bridge financing to support the construction of the transmission line between Mayo and Dawson City. The loan matured on the issuance of a replacement debt instrument to Yukon Development Corporation by Yukon Energy Corporation at the completion of the transmission line project (note 12). The interest rate was equal to the TD Canada Trust Bank Prime Rate adjusted monthly as necessary. Interest payments were made monthly.

The promissory note was held by the parent, Yukon Development Corporation, and matured March 31, 2003. Subsequently, it was reissued as long-term debt as disclosed in note 12.

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2003	2002
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 8,855	\$ 546	\$ 8,309	\$ 8,510
Contributions from customers since 1998	1,744	102	1,642	1,127
Pre-1998 contributions	1,739	747	992	1,058
	\$ 12,338	\$ 1,395	\$ 10,943	\$ 10,695

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



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

12. LONG-TERM DEBT

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

	2003	2002
Government of Canada		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of \$1,000,000 principal, plus accrued interest	\$ 28,688	\$ 29,056
Yukon Development Corporation		
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	27,314	-
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	17,857	-
Unsecured advances bearing interest at 9.79%, due one year after demand	-	8,786
Unsecured advances bearing interest at 8.94%, due one year after demand	-	1,654
Unsecured advances bearing interest at 9.17%, due one year after demand	-	1,696
Unsecured advances bearing interest at 8.78%, due one year after demand	-	3,285
Unsecured advances bearing interest at 7.12%, due one year after demand	-	1,110
Unsecured advances bearing interest at 6.68%, due one year after demand	-	4,216
Unsecured advances bearing interest at 7.49%, due one year after demand	-	3,406
Unsecured advances bearing interest at 6.82%, due one year after demand	-	796
Unsecured advances bearing interest at 6.96%, due one year after demand	-	2,196
Unsecured advances bearing interest at 6.59%, due one year after demand	-	169
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.	9,916	10,350
	83,775	66,720
Less current portion	1,235	773
	\$ 82,540	\$ 65,947

Government of Canada note

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



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2003 is 2.50% (2002 - 1.90%). For further discussion regarding this instrument, see also note 20(b).

Mayo - Dawson Transmission Line Financing

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

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

At December 31, 2003, costs had exceeded benefits for the period since September 6, 2003 and a receivable from Yukon Development Corporation of \$93,697 has been recorded and is included in the balance disclosed in note 17.

Other financing

At December 31, 2003, unsecured advances from the parent in effect on December 31, 2002, totaling \$27,313,661 were consolidated into one loan.

Long-term debt repayment

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

2004	\$	1,235
2005		1,265
2006		1,313
2007		2,969
2008		3,018
Thereafter		73,975

\$ 83,775

Fair value

Fair value of \$94,491,000 (2002 - \$76,120,000) 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.



Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2003

13. REGULATORY LIABILITIES

	2003	2002
Insurance proceeds held on behalf of ratepayers	\$ 744	\$ 744
Anvil Range Mine dewater revenue	1,774	1,425
	\$ 2,518	\$ 2,169

The insurance proceeds held on behalf of ratepayers amount 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. The Corporation is required to use the balance of the insurance proceeds to the benefit of rate payers. The allocation of this amount will be the subject of a decision of the Yukon Utilities Board.

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Corporation is deferring revenues collected from this rate class until application to the benefit of ratepayers is directed by the Yukon Utilities Board.

14. DEFERRED REVENUE

	2003	2002
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$2,609,000 (2002 - \$2,429,000))	\$ 8,995	\$ 9,175

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

15. ADMINISTRATION EXPENSES

	2003	2002
Wages, benefits and staff recruiting	\$ 2,907	\$ 2,559
Insurance	1,226	1,168
General office and governance costs	549	478
Data and bill processing	437	497
Consulting and legal services	407	439
Communications and corporate contributions	185	375
Environmental and safety management	175	158
Reimbursed and miscellaneous costs	835	704
	\$ 6,721	\$ 6,378



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16. OPERATIONS AND MAINTENANCE EXPENSES

	2003	2002
Wages and benefits	2,536	2,428
Fuel	980	1,259
Maintenance		
- hydro, diesel and wind	719	682
- lines and substations	432	398
- building and vehicle	401	323
Water level measurement	197	205
	\$ 5,265	\$ 5,295

17. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Corporation's related party transactions for the year:

	2003	2002
Revenue		
Sales of service to:		
- direct parent company	\$ 450	\$ 478
- wholly owned subsidiary of parent company	38	61
	\$ 488	\$ 539
Rate Stabilization Fund revenue from:		
- direct parent company	\$ 285	\$ 297
Expense		
Payment of interest on long-term debt to:		
- direct parent company	\$ 2,286	\$ 2,521
Other receipts		
Rural Electrification Support Program funding:		
- direct parent company	\$ 68	\$ -



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Other payments

Payment of interest on short-term debt to:			
- direct parent company	\$	469	\$ 352
Purchase of capital equipment			
- wholly owned subsidiary of parent company	\$	179	\$ -
Payment on contribution agreements to:			
- direct parent company	\$	35	\$ 64

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of Administration expense on the statement of income.

Rate Stabilization Fund revenues are received from the parent in accordance with terms established by the Yukon Territorial Government, which established the Fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of Sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Interest payments on construction are capitalized as part of the cost of the project to which the financing relates.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

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

	2003	2002
Direct parent company		
Accounts receivable	\$ 539	\$ 313
Accounts payable	\$ 828	\$ 447
Current portion of long term debt	\$ 450	\$ -
Short-term debt	\$ -	\$ 16,000
Long-term debt	\$ 44,721	\$ 27,314
Wholly owned subsidiary of parent company		
Accounts receivable	\$ 71	\$ 59
Accounts payable	\$ 142	\$ -

These balances are payable on demand except for long-term debt.

18. 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



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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 16 years.

The Corporation 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, 2001 by the consulting actuarial firm AON Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2003 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2003 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 the Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of the plan assets is based on market values as reported by Royal Trust as at December 31, 2003.

The following table sets out the assumptions and pension amounts as at December 31, 2003. The Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining the Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2003, the Corporation's defined pension plan had 42 members, and the RRSP had 28 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 3.00% are provided to pensioners. The Corporation contributes amounts as prescribed by an independent actuary.

Employees make contributions to the plan as follows:

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

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

	2003	2002
Discount rate	6.50%	6.50%
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	16 years	16 years



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Benefit obligation determined by actuarial valuation	\$	6,241	\$	5,516
Fair value of plan assets		4,827		4,018
Plan deficit	\$	(1,414)	\$	(1,498)
Accrued benefit liability	\$	(424)	\$	(223)
Pension expense	\$	438	\$	335
Employer contributions	\$	237	\$	207
Employee contributions	\$	83	\$	89
Benefits paid	\$	43	\$	64

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

19. CONTINGENCIES

(a) Mayo to Dawson City transmission line project

As discussed in Note 6, the Corporation completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, Yukon Energy Corporation and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis. To date, no legal action has commenced. The parties are documenting their claims and, once the documentation is complete, have agreed to meet to select an appropriate legal process to resolve the outstanding issues. To date, Yukon Energy Corporation has not received sufficient information to assess the Corporation's exposure.

(b) Federal Transfer Agreement

Most of the assets of the Corporation were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are a number of claims that the Corporation has against Canada under the Transfer Agreement. Subsequent to year end, Canada made a demand on Yukon Energy Corporation under the Transfer Agreement more specifically in relation to amounts it alleges are owing to it under the Flex Term Note described in Note 12.

The various claims are described below:

I. Canada's Claims Against Yukon Energy Corporation

(i) Claim on the Flexible Term Note

On March 5, 2004 Canada made a demand on Yukon Energy Corporation for an amount it alleges the Corporation owes pursuant to the Flex Term Note referred to in Note 12. The Flex Term Note provides for payments of principal and interest to be deferred and abated if particular power sales are less than specified amounts set out in the Flex Term Note. Since 1998 when the Faro Mine shut down Yukon Energy Corporation has paid the Government of Canada pursuant to the formula under the Agreement without including secondary sales (a program of sales at reduced rates on an interruptible basis). Pursuant to its demand letter Canada has taken the position that secondary sales should be included in the calculation. The Corporation has informed Canada that it disputes Canada's claim. Canada's claim is for principal of \$252,000, interest of \$511,000 and penalty interest.

II. Yukon Energy Corporation claims against Canada

(i) Claim against Canada Arising from Requirement to Obtain a Fish Authorization in Relation to the Aishihik Facility

In January, 2004, Yukon Energy Corporation filed a Writ of Summons against Canada for damages



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

(ii) Soil Contamination at the Whitehorse Facility

Yukon Energy Corporation has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred in 1979 when Canada owned the facility. This contamination was discovered in 1999 and was remediated in 2000. The Corporation's claim for indemnification arises under the Transfer Agreement.

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

20. 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. To date, no such specific liabilities have been recorded in the Corporation's accounts.

21. FINANCIAL INSTRUMENTS

The fair value of accounts receivable, funds held in trust, and accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt is described in note 12.

22. COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform with the current year's presentation.



PHOTOGRAPH CREDITS

Cover: Whitehorse Rapids hydro facility (Derek Crowe)

Cover insets:

left – surveying on the Mayo to Dawson line (Cathie Archbould)

middle – working on Mayo to Dawson line (Cathie Archbould)

right – fish fry at Whitehorse fish hatchery (Peter Long)

p.1: Whitehorse Rapids hydro facility (Derek Crowe)

p. 3: customer service at our Dawson City office (Cathie Archbould)

p. 5: meter reading (Cathie Archbould)

p. 7: Whitehorse transmission pole (Yukon Energy)

p. 9: visitors to the Whitehorse Rapids Fishladder (Cathie Archbould)

p. 11: fish viewing at the Whitehorse fish hatchery (Cathie Archbould)

p. 13: working at the fish hatchery (Cathie Archbould)