

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2005

(audited)

**Auditors' Report**

**To the Directors of  
Yukon Government Fund Limited**

We have audited the balance sheet of Yukon Government Fund Limited as at December 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the company 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.

**Whitehorse, Canada**

**April 5, 2006**



**Chartered Accountants**

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## Yukon Government Fund Limited

### Balance Sheet

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December 31, 2005 2004

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#### Assets

##### Current

Cash	\$ 4,135,303	\$ 2,157,737
Interest receivable (note 4)	55,005	77,107
Current portion of due from 19596 Yukon Inc. (note 4)	5,775,000	3,500,000

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9,965,308

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Restricted cash (note 3)	-	3,000,000
Due from 19596 Yukon Inc. (note 4)	1,225,000	7,000,000
Deferred distribution fees (note 5)	28,000	188,000

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\$ 11,218,308

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#### Liabilities

##### Current

Accounts payable and accrued liabilities	\$ 12,556	\$ 6,150
Current portion of due to investors (note 7)	7,750,000	5,000,000

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7,762,556

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Due to the Government of the Yukon (notes 5 and 6)	116,054	116,054
Due to investors (note 7)	2,250,000	10,000,000

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10,128,610

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#### Shareholder's Equity

Share capital (note 8)	100	100
Retained earnings	1,089,598	800,540

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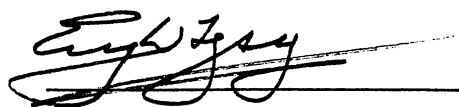
1,089,698

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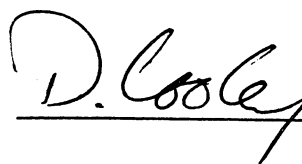
\$ 11,218,308

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Approved by the board:



Director



Director

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**Yukon Government Fund Limited****Statement of Operations and Retained Earnings**

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<b>For the year ended December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>	<b>\$ 791,348</b>	<b>\$ 893,228</b>
<b>Expenses</b>		
Amortization of deferred costs and distribution fees (note 5)	160,000	240,000
Bank charges and interest	-	25
Interest paid to investors	257,260	300,000
Professional fees	7,852	4,884
Reporting fees	77,178	90,247
	<b>502,290</b>	<b>635,156</b>
<b>Net income</b>	<b>289,058</b>	<b>258,072</b>
<b>Retained earnings, beginning of year</b>	<b>800,540</b>	<b>542,468</b>
<b>Retained earnings, end of year</b>	<b>\$ 1,089,598</b>	<b>\$ 800,540</b>

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## Yukon Government Fund Limited

### Statement of Cash Flows

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For the year ended December 31,	2005	2004
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net income	\$ 289,058	\$ 258,072
Item not affecting cash		
Amortization of deferred costs and distribution fees (note 5)	160,000	240,000
	449,058	498,072
Changes in non-cash working capital items		
Interest receivable	22,102	(571)
Accounts payable and accrued liabilities	6,406	(7,394)
	477,566	490,107
<b>Financing activity</b>		
Decrease in due to investors	(5,000,000)	-
<b>Investing activity</b>		
Decrease in due from 19596 Yukon Inc.	3,500,000	-
<b>Increase (decrease) in cash</b>	<b>(1,022,434)</b>	<b>490,107</b>
<b>Cash, beginning of year</b>	<b>5,157,737</b>	<b>4,667,630</b>
<b>Cash, end of year</b>	<b>\$ 4,135,303</b>	<b>\$ 5,157,737</b>
<b>Cash consists of:</b>		
Cash	\$ 4,135,303	\$ 2,157,737
Restricted cash	-	3,000,000
	\$ 4,135,303	\$ 5,157,737

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# Yukon Government Fund Limited

## Notes to the Financial Statements

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December 31, 2005

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### 1. Nature of operations

Yukon Government Fund Limited ("The Company") is incorporated under the Business Corporations Act (Yukon). The Company is wholly owned by the Government of the Yukon ("the Government").

The Company is a Government administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended ("the Regulations"). Under the Regulations, the purpose of the Company is to invest in the active business operations of at least two eligible businesses.

The Company provides loan and equity capital to establish, expand, purchase, maintain or revitalize business or commercial ventures in the Yukon Territory which comply with the Regulations and are of significant economic benefit to the Yukon Territory, including creation or continuation of employment opportunities for Canadian citizens or permanent residents other than the investor and his/her dependents.

### 2. Significant accounting policies

The following is a summary of the significant accounting policies used by management in the preparation of these financial statements.

#### (a) Income taxes

The Company is wholly owned by the Yukon Government and is therefore exempt from income taxes.

#### (b) Financial instruments

All significant financial assets, financial liabilities and equity instruments of the company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

### 3. Restricted cash

The terms of the confidential offering memorandum requires that 20% of the subscription proceeds be placed in an account to be used to repay investors who may ultimately be rejected for issuance of an immigrant visa.

	2005	2004
Restricted cash	\$ -	\$ 3,000,000

# Yukon Government Fund Limited

## Notes to the Financial Statements

December 31, 2005

### 4. Due from 19596 yukon inc.

Interest receivable of \$ 44,213 (2004 - \$66,319) is payable by 19596 Yukon Ltd., a company with significant common influence. During the year, the company recorded interest revenue of \$681,257 (2004 - \$795,827) from 19596 Yukon Inc. At December 31, 2005, 19596 Yukon Ltd. owed \$7,000,000 (2004 - \$10,500,000) to the Company.

	2005	2004
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing May 1, 2005. Secured by promissory note.	\$ -	\$ 1,750,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing October 20, 2005. Secured by promissory note.	-	1,750,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing January 22, 2006. Secured by promissory note.	1,750,000	1,750,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing May 18, 2006. Secured by promissory note.	1,925,000	1,925,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing July 20, 2006. Secured by promissory note.	1,575,000	1,575,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing September 21, 2006. Secured by promissory note.	525,000	525,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually not in advance, receivable monthly. Receivable 60 months after advance, maturing January 10, 2007. Secured by promissory note.	1,225,000	1,225,000
	<b>7,000,000</b>	<b>10,500,000</b>
Less current portion	<b>5,775,000</b>	<b>3,500,000</b>
	<b>\$ 1,225,000</b>	<b>\$ 7,000,000</b>

Estimated principal repayments are as follows:

2006	\$ 5,775,000
2007	1,225,000
	<b>\$ 7,000,000</b>

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## Yukon Government Fund Limited

### Notes to the Financial Statements

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December 31, 2005

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#### 5. Deferred distribution fees

Legal fees and other expenditures related to the incorporation and issuance of the Confidential Offering Memorandum have been deferred and have been amortized over 5 years, the initial term of the investments. The Government has advanced funds to cover these expenses. A portion of the proceeds of the offering will be used to repay the Government. Distribution fees of 8% of the subscription proceeds have been deferred and amortized over the terms of the investments (5 years).

			2005	2004
	Cost	Accumulated Amortization	Net book value	Net book value
Deferred distribution fees	\$ 1,200,000	\$ 1,172,000	\$ 28,000	\$ 188,000
Deferred costs	118,220	118,220	-	-
	<b>\$ 1,318,220</b>	<b>\$ 1,290,220</b>	<b>\$ 28,000</b>	<b>\$ 188,000</b>

#### 6. Due to the Government of the Yukon

The amount due to the shareholder is unsecured, bears no interest and is due on demand. Since the shareholder has indicated that it is not their intention to request payment of this amount during the next fiscal year, this amount has been classified as a non-current liability in the accompanying financial statements. Fair value cannot be readily determined.

	2005	2004
Due to the Government of the Yukon	\$ 116,054	\$ 116,054



# Yukon Government Fund Limited

## Notes to the Financial Statements

December 31, 2005

### 7. Due to investors

	2005	2004
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing May 5, 2005.	\$ -	\$ 2,500,000
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing October 20, 2005.	-	2,500,000
Term loans from nine individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing January 17, 2006.	2,250,000	2,250,000
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing May 14, 2006.	2,500,000	2,500,000
Term loans from nine individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing July 18, 2006.	2,250,000	2,250,000
Term loans from three individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing September 21, 2006.	750,000	750,000
Term loans from seven individual investors (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing January 10, 2007.	1,750,000	1,750,000
Term loans from one individual investor (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing July 30, 2007.	250,000	250,000
Term loans from one individual investor (\$250,000 each) bearing interest at 2% loan payable annually, repayable 180 days after maturity, maturing July 15, 2008.	250,000	250,000
	<b>10,000,000</b>	15,000,000
Less current portion	<b>7,750,000</b>	5,000,000
	<b>\$ 2,250,000</b>	<b>\$ 10,000,000</b>

Estimated principal repayments are as follows:

2006	\$ 7,750,000
2007	2,000,000
2008	250,000
	<b>\$ 10,000,000</b>

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## Yukon Government Fund Limited

### Notes to the Financial Statements

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December 31, 2005

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#### 8. Share capital

	2005	2004
Authorized		
Unlimited number of shares without nominal or par value		
Issued		
100 common shares	\$ 100	\$ 100

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No dividends, share repurchases or return of capital shall be paid at any time when the Company has outstanding debt obligations to investors. Subject to this restriction, the holders of shares shall have all the rights of a shareholder under the Business Corporations Act, including the right to vote. No shares shall be transferred without the prior consent of the Government.

#### 9. Offering Memorandum

On January 4, 1999 the Company finalized a Confidential Offering Memorandum for filing with the Business Immigration Division, Department of Citizenship and Immigration, Canada, Government of Canada. The maximum and minimum amounts of the offering were \$30,000,000 (120 units) and \$3,000,000 (12 units) respectively. The Company has committed to use the proceeds of the offering to invest in eligible businesses in the Yukon. The offering expired on March 31, 1999.

Proceeds from the sale of units will be held in trust by the escrow agent until a closing and may be released from escrow providing certain conditions are met.

The balance held in escrow as at December 31, 2005 is \$90,705 (2004 - \$164,077).

#### 10. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.