

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2001

(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, 2001 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, 2001 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Whitehorse, Yukon

January 17, 2002


Chartered Accountants

Yukon Government Fund Limited

Balance Sheet

As at December 31,

2001

2000

Assets

Current

Cash

Interest receivable (note 7 and 8)

\$ 646,685 \$ 152,627
58,582 22,106

705,267 174,733

Deferred costs (note 6)

47,228 70,872

Restricted cash (note 5)

2,650,000 1,000,000

Deferred distribution fees (note 6)

768,000 320,000

Due from 19596 Yukon Ltd. (note 7 and 8)

9,275,000 3,500,000

\$ 13,445,495 \$ 5,065,605

Liabilities

Current

Accounts payable and accrued liabilities

\$ 13,454 \$ 11,809

Due to the Government of the Yukon (note 6 and 9)

116,173 116,173

Due to Investors (note 10)

13,250,000 5,000,000

13,379,627 5,127,982

Shareholders' Equity

Share capital (note 11)

100 100

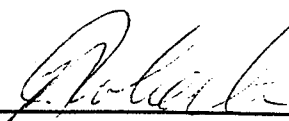
Retained earnings (deficit)

65,768 (62,477)

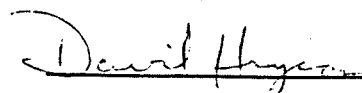
65,868 (62,377)

\$ 13,445,495 \$ 5,065,605

Approved by the Directors



Director



Director

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

For the year ended December 31,**2001****2000**

Revenue**\$ 636,462****\$ 137,299**

Expenses

Amortization of deferred costs and distribution fees (note 6)

235,644

103,644

Interest paid to investors

205,041

42,740

Reporting fees

62,969

18,232

Professional fees

4,250

5,523

Supplies

259

119

Bank charges and interest

54

80

508,217**170,338**

Net income (loss)**128,245****(33,039)****Deficit, beginning of year****(62,477)****(29,438)**

Retained earnings (deficit), end of year**\$ 65,768****\$ (62,477)**

Yukon Government Fund Limited

Statement of Cash Flows

For the year ended December 31,	2001	2000
Cash flows from Operating activities		
Net income (loss)	\$ 128,245	\$ (33,039)
Items not affecting cash		
Amortization	235,644	103,644
Change in non-cash working capital		
Distribution fees	(660,000)	(400,000)
Interest receivable	(36,476)	(22,106)
Due to the Government of the Yukon	-	119
Accounts payable and accrued liabilities	1,645	4,009
	(330,942)	(347,373)
Financing activities		
Increase in due to investors	8,250,000	5,000,000
	8,250,000	5,000,000
Investing activities		
Increase in loans	(5,775,000)	(3,500,000)
	(5,775,000)	(3,500,000)
Increase in cash	2,144,058	1,152,627
Cash, beginning of year	1,152,627	-
Cash, end of year	\$ 3,296,685	\$ 1,152,627
Cash represented by:		
Cash	\$ 646,685	\$ 152,627
Restricted Cash	2,650,000	1,000,000
	\$ 3,296,685	\$ 1,152,627

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2001

1. Incorporation and Basis of Presentation

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").

2. Purpose

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.

3. 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 corporation is wholly owned by the Government and, therefore, is 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 available information for a reasonable assessment of future cash flows, interest rate risk and credit risk.

4. 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, 2001 is \$ 599,411 (2000 - \$ 2,566,469).

5. 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.

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2001

6. Deferred Costs and Distribution Fees

Legal fees and other expenditures related to the incorporation and issuance of the Confidential Offering Memorandum (note 4) have been deferred and are being 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).

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Deferred costs	\$ 118,220	\$ 70,992	\$ 47,228	\$ 70,872
Deferred distribution fees	\$ 1,060,000	\$ 292,000	\$ 768,000	\$ 320,000

7. Due from 19596 Yukon Ltd.

2001

2000

Term loan earning interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable at maturity, maturing May 1, 2005. Secured by promissory notes and a security agreement over equipment.

\$ 9,275,000

\$ 3,500,000

8. Related Party Transactions

Interest receivable of \$ 61,705 (2000 - \$22,106) is payable by 19596 Yukon Ltd., a company with significant common influence. At December 31, 2001, 19596 Yukon Ltd. owed \$ 9,275,000 (2000 - \$3,500,00) to the Company.

9. Due to the Government of the Yukon

The amount due to the shareholder is unsecured and due on demand. However, the shareholder has indicated that it will not request payment until the amount due to investors is repaid. Consequently, this item has been classified as a long-term liability in the accompanying financial statements.

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2001

10. Due to Investors	2001	2000
Term loans from individual investors (\$250,000 each) bearing interest at 2% payable on December 31, repayable 180 days after maturity, maturing May 5, 2005	\$ 2,500,000	\$ 2,500,000
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing October 20, 2005	2,500,000	2,500,000
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing January 17, 2006	2,500,000	-
Term loans from eleven individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing May 14, 2006	2,750,000	-
Term loans from nine individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing July 18, 2006	2,250,000	-
Term loans from three individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing September 21, 2006	750,000	-
	<hr/>	<hr/>
	\$ 13,250,000	\$ 5,000,000

The amount due to investors is repayable annually as follows:

2005	5,000,000
2006	8,250,000
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	\$ 13,250,000

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2001

11. Share Capital

Share capital consists of the following:

Authorized

Unlimited number of shares without nominal or par value.

Issued

100 common shares

	2001		2000
	\$ 100	\$	100

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.

12. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.