

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2004

(audited)

MacKay LLP

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, 2004 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, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Whitehorse, Yukon

February 18, 2005

Mackay LLP

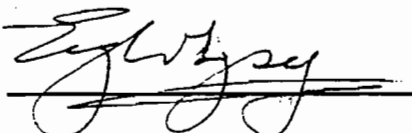
Chartered Accountants

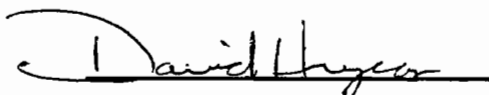
Yukon Government Fund Limited

Balance Sheet

As at December 31,	2004	2003
Assets		
Current		
Cash	\$ 2,157,737	\$ 1,667,630
Interest receivable (notes 7 and 8)	77,107	76,536
Current portion of due from 19596 Yukon Ltd.	3,500,000	-
	5,734,844	1,744,166
Restricted cash (note 5)	3,000,000	3,000,000
Deferred distribution fees (note 6)	188,000	428,000
Due from 19596 Yukon Ltd. (notes 7 and 8)	7,000,000	10,500,000
	\$ 15,922,844	\$ 15,672,166
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 6,150	\$ 13,544
Current portion of due to investors (note 10)	5,000,000	-
	5,006,150	13,544
Due to the Government of the Yukon (notes 6 and 9)	116,054	116,054
Due to Investors (note 10)	10,000,000	15,000,000
	15,122,204	15,129,598
Shareholder's Equity		
Share capital (note 11)	100	100
Retained earnings	800,540	542,468
	800,640	542,568
	\$ 15,922,844	\$ 15,672,166

Approved by the Directors

 Director

 Director

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

For the year ended December 31,	2004	2003
Revenue	\$ 893,228	\$ 913,920
Expenses		
Amortization of deferred costs and distribution fees (note 6)	240,000	263,584
Interest paid to investors	300,000	300,000
Reporting fees	90,247	90,000
Professional fees	4,884	7,474
Bank charges and interest	25	-
	635,156	661,058
Net income	258,072	252,862
Retained earnings, beginning of year	542,468	289,606
Retained earnings, end of year	\$ 800,540	\$ 542,468

Yukon Government Fund Limited**Statement of Cash Flows**

For the year ended December 31, 2004 2003

**Cash flows from
Operating activities**

Net income	\$ 258,072	\$ 252,862
Items not affecting cash		
Amortization	240,000	263,584
Change in non-cash working capital		
Interest receivable	(571)	232
Accounts payable and accrued liabilities	(7,394)	(850)
	490,107	515,828

Investing activities

Increase in short-term investment	-	247,165
-----------------------------------	---	---------

Increase in cash **490,107** **762,993**

Cash, beginning of year **4,667,630** **3,904,637**

Cash, end of year **\$ 5,157,737** **\$ 4,667,630**

Cash represented by:

Cash	\$ 2,157,737	\$ 1,667,630
Restricted Cash	3,000,000	3,000,000
	\$ 5,157,737	\$ 4,667,630

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2004

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, 2004 is \$164,077 (2003 - \$148,219).

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, 2004

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 of the Yukon 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	2004 Net Book Value	2003 Net Book Value
Deferred costs	\$ 118,220	\$ 118,220	\$ -	\$ -
Deferred distribution fees	\$ 1,200,000	\$ 1,012,000	\$ 188,000	\$ 428,000

7. Due from 19596 Yukon Ltd.

2004

2003

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 and a security agreement over equipment.

\$ 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 October 20, 2005. Secured by promissory note and a security agreement over equipment.

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 January 22, 2006. Secured by promissory note and a security agreement over equipment.

1,750,000 1,750,000

Carried forward

\$ 5,250,000 \$ 5,250,000

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2004

7. Due from 19596 Yukon Ltd. (continued)	2004	2003
Balance forward	\$ 5,250,000	\$ 5,250,000
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 and a security agreement over equipment.	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 and a security agreement over equipment.	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 and a security agreement over equipment.	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 and a security agreement over equipment.	1,225,000	1,225,000
	10,500,000	10,500,000
Current portion	3,500,000	-
	\$ 7,000,000	\$ 10,500,000

8. Related Party Transactions

Interest receivable of \$ 66,319 (2003 - \$ 66,319) is payable by 19596 Yukon Ltd., a company with significant common influence. At December 31, 2004, 19596 Yukon Ltd. owed \$ 10,500,000 (2003 - \$ 10,500,000) 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, 2004

10. Due to Investors	2004	2003
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% payable annually, 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.	2,250,000	2,250,000
Term loans from nine individual investors (\$250,000 each) bearing interest at 2% 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% 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% 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% 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% 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% payable annually, repayable 180 days after maturity, maturing July 15, 2008.	250,000	250,000
	15,000,000	15,000,000
Current portion	5,000,000	-
	\$ 10,000,000	\$ 15,000,000

The amount due to investors is repayable annually as follows:

2005	\$ 5,000,000
2006	7,750,000
2007	2,000,000
2008	250,000
	\$ 15,000,000

Yukon Government Fund Limited

Notes to Financial Statements

December 31, 2004

11. Share Capital

Share capital consists of the following:

Authorized

Unlimited number of shares without nominal or par value.

Issued

100 common shares

	2004	2003
	\$ 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 Figures

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