

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2006

(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, 2006 and the statements of operations, 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, 2006 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
June 21, 2007**


Chartered Accountants

Yukon Government Fund Limited

Balance Sheet

December 31, 2006 2005

Assets

Current

Cash	\$ 2,461,797	\$ 4,135,303
Interest receivable (note 3)	7,737	55,005
Current portion of due from 19596 Yukon Inc. (note 3)	1,225,000	5,775,000

3,694,534

9,965,308

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

\$ 3,694,534

\$ 11,218,308

Liabilities

Current

Accounts payable and accrued liabilities	\$ 53,122	\$ 12,556
Due to Government of Yukon (note 5)	116,054	116,054
Current portion of due to investors (note 6)	2,000,000	7,750,000

2,169,176

7,878,610

Due to investors (note 6)	250,000	2,250,000
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2,419,176

10,128,610

Shareholder's Equity

Share capital (note 7)	100	100
Retained earnings	1,275,258	1,089,598

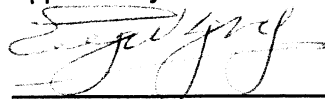
1,275,358

1,089,698

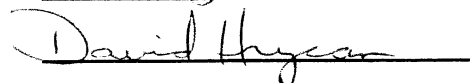
\$ 3,694,534

\$ 11,218,308

Approved by the board:



Director



Director

Yukon Government Fund Limited

Statement of Operations

For the year ended December 31,	2006	2005
Revenue	\$ 352,998	\$ 791,348
Expenses		
Amortization of deferred costs and distribution fees (note 4)	28,000	160,000
Bank charges and interest	25	-
Interest	101,877	257,260
Professional fees	6,873	7,852
Reporting fees	30,563	77,178
	167,338	502,290
Net income	\$ 185,660	\$ 289,058

Yukon Government Fund Limited

Statement of Retained Earnings

For the year ended December 31,	2006	2005
Retained earnings, beginning of year	\$ 1,089,598	\$ 800,540
Net income	185,660	289,058
Retained earnings, end of year	\$ 1,275,258	\$ 1,089,598

Yukon Government Fund Limited

Statement of Cash Flows

For the year ended December 31,	2006	2005
Cash provided by (used for)		
Operating activities		
Net income	\$ 185,660	\$ 289,058
Item not affecting cash		
Amortization of deferred costs and distribution fees (note 4)	28,000	160,000
	213,660	449,058
Change in non-cash working capital items		
Decrease in interest receivable	47,268	22,102
Increase in accounts payable and accrued liabilities	40,566	6,406
	301,494	477,566
Financing activity		
Decrease in due to investors	(7,750,000)	(5,000,000)
Investing activity		
Decrease in due from 19596 Yukon Inc.	5,775,000	3,500,000
Decrease in cash	(1,673,506)	(1,022,434)
Cash, beginning of year	4,135,303	5,157,737
Cash, end of year	\$ 2,461,797	\$ 4,135,303
Supplemental cash flow information		
The company had the following cash transactions:		
Interest paid	\$ 101,877	\$ 257,260
Interest received	400,265	802,563

Yukon Government Fund Limited

Notes to the Financial Statements

December 31, 2006

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 dependants.

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.

Yukon Government Fund Limited

Notes to the Financial Statements

December 31, 2006

3. Due from 19596 Yukon Inc.

Interest receivable of \$ 7,737 (2005 - \$44,213) is payable by 19596 Yukon Inc., a company with common significant influence. During the year, the company recorded interest revenue of \$247,557 (2005 - \$681,257) from 19596 Yukon Inc. At December 31, 2006, 19596 Yukon Inc. owed \$1,225,000 (2005 - \$7,000,000), see note 3. 19596 Yukon Inc. has set aside in a separate bank account sufficient funds to repay the term loans as they mature.

	2006	2005
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. Evidenced 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 May 18, 2006. Evidenced by promissory note.	-	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. Evidenced by promissory note.	-	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. Evidenced by promissory note.	-	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. Evidenced by promissory note.	1,225,000	1,225,000
	1,225,000	7,000,000
Less current portion	1,225,000	5,775,000
	\$ -	\$ 1,225,000

Yukon Government Fund Limited

Notes to the Financial Statements

December 31, 2006

4. 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).

	2006		2005	
	Cost	Accumulated Amortization	Net book value	Net book value
Deferred distribution fees	\$ 1,200,000	\$ 1,200,000	\$ -	\$ 28,000
Deferred costs	118,220	118,220	-	-
	\$ 1,318,220	\$ 1,318,220	\$ -	\$ 28,000

5. Due to the Government of Yukon

The amount due to the shareholder is unsecured, bears no interest and is due on demand. Fair value cannot be readily determined.

	2006	2005
Due to the Government of Yukon	\$ 116,054	\$ 116,054

Yukon Government Fund Limited

Notes to the Financial Statements

December 31, 2006

6. Due to investors

	2006	2005
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
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
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
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
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
	2,250,000	10,000,000
Less current portion	2,000,000	7,750,000
	\$ 250,000	\$ 2,250,000

Subsequent to year end, the loans for \$1,750,000, maturing January 10, 2007 was paid out to the investors on that date.

Estimated principal repayments are as follows:

2007	\$ 2,000,000
2008	250,000
	\$ 2,250,000

7. Share capital

	2006	2005
Authorized Unlimited number of shares without nominal or par value		

Yukon Government Fund Limited

Notes to the Financial Statements

December 31, 2006

7. Share capital (continued)

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.

8. 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, 2006 is \$NIL (2005 - \$90,705).

9. Comparative figures

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