

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2002

(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, 2002 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, 2002 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 11, 2003**

*Mackay LLP*

**Chartered Accountants**

# Yukon Government Fund Limited

## Balance Sheet

As at December 31, 2002 2001

### Assets

#### Current

Cash	\$ 904,637	\$ 646,685
Short-term investment (note 6)	247,165	-
Interest receivable (notes 8 and 9)	76,768	58,582

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	1,228,570	705,267
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Deferred costs (note 7)	23,584	47,228
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Restricted cash (note 5)	3,000,000	2,650,000
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Deferred distribution fees (note 7)	668,000	768,000
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Due from 19596 Yukon Ltd. (notes 8 and 9)	10,500,000	9,275,000
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	\$ 15,420,154	\$ 13,445,495
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### Liabilities

#### Current

Accounts payable and accrued liabilities	\$ 14,394	\$ 13,454
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Due to the Government of the Yukon (notes 7 and 10)	116,054	116,173
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Due to Investors (note 11)	15,000,000	13,250,000
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	15,130,448	13,379,627
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### Shareholders' Equity

Share capital (note 12)	100	100
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Retained earnings	289,606	65,768
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	289,706	65,868
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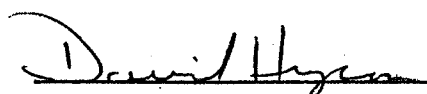
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	\$ 15,420,154	\$ 13,445,495
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Approved by the Directors

 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>2002</b>	<b>2001</b>
<b>Revenue</b>	<b>\$ 882,678</b>	<b>\$ 636,462</b>
<b>Expenses</b>		
Amortization of deferred costs and distribution fees (note 7)	263,644	235,644
Interest paid to investors	299,041	205,041
Reporting fees	89,798	62,969
Professional fees	6,423	4,250
Supplies	(119)	259
Bank charges and interest	53	54
	<b>658,840</b>	<b>508,217</b>
<b>Net income</b>	<b>223,838</b>	<b>128,245</b>
<b>Retained earnings (deficit), beginning of year</b>	<b>65,768</b>	<b>(62,477)</b>
<b>Retained earnings, end of year</b>	<b>\$ 289,606</b>	<b>\$ 65,768</b>

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# Yukon Government Fund Limited

## Statement of Cash Flows

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For the year ended December 31,	2002	2001
<b>Cash flows from Operating activities</b>		
Net income	\$ 223,838	\$ 128,245
Items not affecting cash		
Amortization	263,644	235,644
Change in non-cash working capital		
Distribution fees	(140,000)	(660,000)
Interest receivable	(18,186)	(36,476)
Due to the Government of the Yukon	(119)	-
Accounts payable and accrued liabilities	940	1,645
	<b>330,117</b>	<b>(330,942)</b>
<b>Financing activities</b>		
Increase in due to investors	1,750,000	8,250,000
	<b>1,750,000</b>	<b>8,250,000</b>
<b>Investing activities</b>		
Increase in loans	(1,225,000)	(5,775,000)
Increase in short-term investment	(247,165)	-
	<b>(1,472,165)</b>	<b>(5,775,000)</b>
<b>Increase in cash</b>	<b>607,952</b>	<b>2,144,058</b>
<b>Cash, beginning of year</b>	<b>3,296,685</b>	<b>1,152,627</b>
<b>Cash, end of year</b>	<b>\$ 3,904,637</b>	<b>\$ 3,296,685</b>
<b>Cash represented by:</b>		
Cash	\$ 904,637	\$ 646,685
Restricted Cash	3,000,000	2,650,000
	<b>\$ 3,904,637</b>	<b>\$ 3,296,685</b>

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# Yukon Government Fund Limited

## Notes to Financial Statements

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December 31, 2002

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### 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.

#### (c) Short-term investment

Short-term investments are recorded at the lower of cost and market value.

### 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, 2002 is \$ 224,995 (2001 - \$ 599,411).

### 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.

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# Yukon Government Fund Limited

## Notes to Financial Statements

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December 31, 2002

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### 6. Short-term Investment

The short-term investment is a bankers acceptance, with a principal amount of \$247,165, yielding interest at 2.3%, and maturing March 17, 2003.

### 7. 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	2002 Net Book Value	2001 Net Book Value
Deferred costs	\$ 118,220	\$ 94,636	\$ 23,584	\$ 47,228
Deferred distribution fees	\$ 1,200,000	\$ 532,000	\$ 668,000	\$ 768,000

### 8. Due from 19596 Yukon Ltd.

2002

2001

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.

\$ 10,500,000

\$ 9,275,000

### 9. Related Party Transactions

Interest receivable of \$ 66,319 (2001 - \$61,705) is payable by 19596 Yukon Ltd., a company with significant common influence. At December 31, 2002, 19596 Yukon Ltd. owed \$ 10,500,000 (2001 - \$9,275,000) to the Company.

### 10. 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.

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# Yukon Government Fund Limited

## Notes to Financial Statements

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December 31, 2002

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11. Due to Investors	2002	2001
Term loans from 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	2,500,000	2,500,000
Term loans from ten individual investors (\$250,000 each) bearing interest at 2% payable annually, repayable 180 days after maturity, maturing May 14, 2006	2,500,000	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	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	-
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	-
	<hr/>	<hr/>
	<b>\$ 15,000,000</b>	<b>\$ 13,250,000</b>

The amount due to investors is repayable annually as follows:

2005	\$	5,000,000
2006		8,000,000
2007		2,000,000
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	\$	<b>15,000,000</b>



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# Yukon Government Fund Limited

## Notes to Financial Statements

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December 31, 2002

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### 12. Share Capital

Share capital consists of the following:

**Authorized**

Unlimited number of shares without nominal or par value.

**Issued**

100 common shares

	2002		2001
	\$ 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.