

19596 YUKON INC.  
FINANCIAL STATEMENTS  
December 31, 2005  
(unaudited)

MacKay LLP

## **Review Engagement Report**

**To the Directors of  
19596 Yukon Inc.**

We have reviewed the balance sheet of 19596 Yukon Inc. as at December 31, 2005 and the statements of operations, retained earnings and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Whitehorse, Canada

April 12, 2006

  
Chartered Accountants

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**19596 Yukon Inc.****Balance Sheet  
(Unaudited - see Review Engagement Report)**

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December 31, 2005 2004

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**Assets****Current**

Cash and short term investments	\$ 942	\$ 1,067
Accounts receivable	135,830	163,508
Restricted cash (notes 3 and 9)	5,954,403	-

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6,091,178 164,575

Restricted cash (notes 3 and 9) 1,225,000 4,720,999

Property and equipment (note 4) 1,243 5,865,366

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\$ 7,317,418 \$ 10,750,940

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**Liabilities****Current**

Accounts payable and accrued liabilities	\$ 47,411	\$ 105,634
Income taxes payable	22,575	-
Advances from shareholder	-	17,655
Current portion of Due to Yukon Government Fund Limited (note 5)	5,775,000	3,500,000

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5,844,986 3,623,289

Due to Yukon Government Fund Limited (note 5) 1,225,000 7,000,000

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7,069,986 10,623,289

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**Shareholders' Equity**

Share capital (note 6)	200	200
Retained earnings	247,232	127,451

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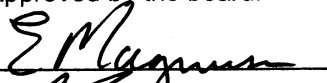

247,432 127,651

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\$ 7,317,418 \$ 10,750,940

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Approved by the board:

 Director  
 Director

 Director

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**19596 Yukon Inc.****Statement of Operations**  
**(Unaudited - see Review Engagement Report)**

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<b>For the year ended December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>		
Interest income	\$ 212,859	\$ 85,948
Leasing income (note 8)	425,000	1,700,000
	<b>637,859</b>	<b>1,785,948</b>
<b>Expenses</b>		
Amortization	376	954,957
Interest and bank charges	125	45
Interest on long-term debt (note 8)	681,257	795,827
Management fees (note 8)	15,000	27,014
Meals and entertainment	64	-
Professional fees	34,935	17,231
	<b>731,757</b>	<b>1,795,074</b>
<b>Loss before other item and income taxes</b>	<b>(93,898)</b>	<b>(9,126)</b>
<b>Other income</b>		
Gain on sale of property and equipment	236,254	-
<b>Income (loss) before income taxes</b>	<b>142,356</b>	<b>(9,126)</b>
<b>Income taxes</b>	<b>22,575</b>	<b>-</b>
<b>Net income (loss)</b>	<b>\$ 119,781</b>	<b>\$ (9,126)</b>

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**19596 Yukon Inc.**

**Statement of Retained Earnings  
(Unaudited - see Review Engagement Report)**

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<b>For the year ended December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Retained earnings, beginning of year</b>	<b>\$ 127,451</b>	<b>\$ 136,577</b>
<b>Net income (loss)</b>	<b>119,781</b>	<b>(9,126)</b>
<b>Retained earnings, end of year</b>	<b>\$ 247,232</b>	<b>\$ 127,451</b>

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**19596 Yukon Inc.****Statement of Cash Flows  
(Unaudited - see Review Engagement Report)**

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**For the year ended December 31,** **2005** **2004**

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**Cash provided by (used for)****Operating activities**

Net income (loss)	\$	119,781	\$	(9,126)
Items not affecting cash				
Amortization		376		954,957
Gain on sale of property and equipment		(236,254)		-

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**(116,097)** **945,831**

## Changes in non-cash working capital items

Accounts receivable		27,678		(9,925)
Accounts payable and accrued liabilities		(58,222)		6,420
Income taxes		22,575		83,516

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**(124,066)** **1,025,842**

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**Financing activities**

Advances from related party		(3,500,000)		-
Advances from (to) shareholder		(17,655)		-

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**(3,517,655)** **-**

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**Investing activity**

Proceeds on disposal of property and equipment		6,100,000		-
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**Increase in cash** **2,458,279** **1,025,842****Cash, beginning of year** **4,722,066** **3,696,224**

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**Cash, end of year** **\$ 7,180,345** **\$ 4,722,066**

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**Cash consists of:**

Cash and short term investments	\$	942	\$	1,067
Restricted cash		7,179,403		4,720,999

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**\$ 7,180,345** **\$ 4,722,066**

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## 19596 Yukon Inc.

### Notes to the Financial Statements (Unaudited - see Review Engagement Report)

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December 31, 2005

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#### 1. Nature of operations

19596 Yukon Inc. is incorporated under the laws of the Yukon Territory and its major activity is the leasing of communications equipment.

#### 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) Property and equipment

Property and equipment are recorded at original cost plus any costs of betterment less accumulated amortization and excludes any assets not in current use. Amortization is calculated by the declining balance method at the annual rates set out in note 4.

##### (b) Income taxes

The company accounts for income taxes using the future income tax method.

##### (c) 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.

##### (d) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

#### 3. Restricted cash

Restricted cash represents equipment lease funds deposited into a trust account with HSBC Bank Canada. These funds are to be used to pay amounts owing to Yukon Government Fund Limited, to pay GST to the appropriate government agency, and audit, legal and other fees incurred by 19596 Yukon Inc. in connection with the transactions contemplated by the loan agreement with Yukon Government Fund Limited, the equipment lease and the procurement agreement.

**19596 Yukon Inc.**

**Notes to the Financial Statements  
(Unaudited - see Review Engagement Report)**

**December 31, 2005**

**4. Property and equipment**

				2005	2004
	Rate	Cost	Accumulated Amortization	Net book value	Net book value
Office furniture	20% \$	2,971 \$	2,095 \$	876 \$	1,095
Computer equipment	30%	2,568	2,201	367	524
Structures & improvements	4%	-	-	-	1,415,378
Roads	8%	-	-	-	132,445
Fiber cable	12%	-	-	-	1,889,483
Routers	20%	-	-	-	110,325
Satellite	20%	-	-	-	499,781
Equipment	20%	-	-	-	1,003,107
Communication equipment	30%	-	-	-	813,228
		<b>\$ 5,539 \$</b>	<b>4,296 \$</b>	<b>1,243 \$</b>	<b>5,865,366</b>

**5. Due to Yukon Government Fund Limited**

	2005	2004
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing May 1, 2005. Secured by promissory note and a security agreement over equipment.	\$ -	\$ 1,750,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing October 20, 2005. Secured by promissory note and a security agreement over equipment.	-	1,750,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing June 22, 2006. Secured by promissory note and a security agreement over equipment.	1,750,000	1,750,000
Carry Forward	<b>\$ 1,750,000 \$</b>	<b>5,250,000</b>



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**19596 Yukon Inc.****Notes to the Financial Statements  
(Unaudited - see Review Engagement Report)**

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**December 31, 2005**

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**5. Due to Government Fund Limited- continued**

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Balance forward	<b>\$ 1,750,000</b>	\$ 5,250,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing May 18, 2006. Secured by promissory note and a security agreement over equipment.	<b>1,925,000</b>	1,925,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing July 20, 2006. Secured by promissory note and a security agreement over equipment.	<b>1,575,000</b>	1,575,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing September 20, 2006. Secured by promissory note and a security agreement over equipment.	<b>525,000</b>	525,000
Term loan bearing interest equal to 7.7% per annum, calculated and compounded semi-annually, not in advance, payable monthly. Repayable 60 months after advance, maturing January 10, 2007. Secured by promissory note and a security agreement over equipment.	<b>1,225,000</b>	1,225,000
	<b>7,000,000</b>	10,500,000
Less current portion	<b>5,775,000</b>	3,500,000
	<b>\$ 1,225,000</b>	<b>\$ 7,000,000</b>

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Estimated principal repayments are as follows:

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

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**19596 Yukon Inc.****Notes to the Financial Statements  
(Unaudited - see Review Engagement Report)**

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**December 31, 2005**

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**6. Share capital**

	<b>2005</b>	2004
Authorized Unlimited number of shares without nominal or par value		
Issued 200 common shares	\$ 200	\$ 200

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**7. Refundable dividend taxes on hand**

The company has refundable dividend taxes of \$35,165 which have been charged to retained earnings and will be refunded to the company at the rate of \$1 for every \$3 of taxable dividends paid.

**8. Related party transactions**

The company paid management fees totalling \$15,000 (2004 - \$27,014) to one shareholder ((2004 - two shareholders) and interest on loans of \$681,257 (2004 - \$795,827) to a company with significant common influence. In addition, the company received lease revenue of \$425,000 (2004 - \$1,700,000) from a shareholder.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.