

YUKON GOVERNMENT FUND LIMITED

FINANCIAL STATEMENTS

December 31, 2007

(audited)

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## **Management Responsibility Statement**

The management of Yukon Government Fund Limited is responsible for preparing the financial statements, the notes to the financial statements and other financial information contained in this annual report.

Management prepares the financial statements in accordance with Canadian generally accepted accounting principles. The financial statements are considered by management to present fairly the management's financial position and results of operations.

Management, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the financial statements.

The financial statements have been reported on by MacKay LLP, Chartered Accountants, the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the financial statements.



Managing Director

**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, 2007 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, 2007 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**

**May 30, 2008**



**Chartered Accountants**

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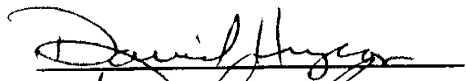
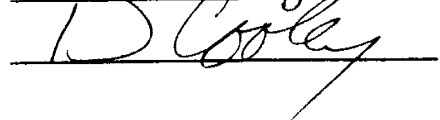
# Yukon Government Fund Limited

## Balance Sheet

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December 31,	2007	2006
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,444,193	\$ 2,461,797
Interest receivable (note 3)	-	7,737
Current portion of due from 19596 Yukon Inc. (note 3)	-	1,225,000
	<b>\$ 1,444,193</b>	<b>\$ 3,694,534</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 4,863	\$ 53,122
Due to Government of Yukon (note 5)	116,054	116,054
Current portion of due to investors (note 6)	-	2,000,000
	<b>120,917</b>	<b>2,169,176</b>
<b>Due to investors (note 6)</b>	<b>-</b>	<b>250,000</b>
	<b>120,917</b>	<b>2,419,176</b>
<b>Shareholder's Equity</b>		
Share capital (note 7)	100	100
Retained earnings	1,323,176	1,275,258
	<b>1,323,276</b>	<b>1,275,358</b>
	<b>\$ 1,444,193</b>	<b>\$ 3,694,534</b>

Approved by the board:

 Director  
 Director

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## Yukon Government Fund Limited

### Statement of Operations

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For the year ended December 31,	2007	2006
<b>Revenue</b>	<b>\$ 63,507</b>	<b>\$ 352,998</b>
<b>Expenses</b>		
Amortization of deferred costs and distribution fees (note 4)	-	28,000
Bank charges and interest	60	25
Interest	7,370	101,877
Professional fees	5,944	6,873
Reporting fees	2,215	30,563
	<b>15,589</b>	<b>167,338</b>
<b>Net income</b>	<b>\$ 47,918</b>	<b>\$ 185,660</b>

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## Yukon Government Fund Limited

### Statement of Retained Earnings

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For the year ended December 31,	2007	2006
Retained earnings, beginning of year	\$ 1,275,258	\$ 1,089,598
Net income	47,918	185,660
Retained earnings, end of year	\$ 1,323,176	\$ 1,275,258

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## Yukon Government Fund Limited

### Statement of Cash Flows

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For the year ended December 31,	2007	2006
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net income	\$ 47,918	\$ 185,660
Item not affecting cash		
Amortization of deferred costs and distribution fees (note 4)	-	28,000
	<b>47,918</b>	<b>213,660</b>
Change in non-cash working capital items		
Decrease in interest receivable	7,737	47,268
Increase (decrease) in accounts payable and accrued liabilities	(48,259)	40,566
	<b>7,396</b>	<b>301,494</b>
<b>Financing activity</b>		
Decrease in due to investors	(2,250,000)	(7,750,000)
<b>Investing activity</b>		
Decrease in due from 19596 Yukon Inc.	1,225,000	5,775,000
<b>Decrease in cash</b>	<b>(1,017,604)</b>	<b>(1,673,506)</b>
<b>Cash, beginning of year</b>	<b>2,461,797</b>	<b>4,135,303</b>
<b>Cash, end of year</b>	<b>\$ 1,444,193</b>	<b>\$ 2,461,797</b>
<b>Supplemental cash flow information</b>		
The company had the following cash transactions:		
Interest paid	\$ 7,370	\$ 101,877
Interest received	71,244	400,265

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# Yukon Government Fund Limited

## Notes to the Financial Statements

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December 31, 2007

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### 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) Accounting Changes

Effective January 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the company has not adopted because they are not yet effective.

The impact of the adoption of this Section will have on the Company's financial statements will depend on the nature of future accounting changes.

#### (b) 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.

#### (c) Revenue recognition

Interest income is recognized as revenue in the year in which accrued under the terms of the investment contracts.

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## Yukon Government Fund Limited

### Notes to the Financial Statements

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December 31, 2007

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#### 2. Significant accounting policies (continued)

##### (d) Income taxes

The Company is wholly owned by the Yukon Government and is therefore exempt from income taxes.

##### (e) 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.

#### 3. Due from 19596 Yukon Inc.

No interest receivable (2006 - \$7,737) from 19596 Yukon Inc., a company with common significant influence at the year end. During the year, the company recorded interest revenue of \$2,326 (2006 - \$247,557) from 19596 Yukon Inc. At December 31, 2007, 19596 Yukon Inc. has no amount owing (2006 - \$1,225,000).

	2007	2006
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
Less current portion	-	1,225,000
	\$ -	\$ -

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# Yukon Government Fund Limited

## Notes to the Financial Statements

December 31, 2007

### 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).

			2007		2006	
	Cost	Accumulated Amortization	Net book value		Net book value	
Deferred distribution fees	\$ 1,200,000	\$ 1,200,000	\$ -	\$ -	\$ -	\$ -
Deferred costs	118,220	118,220	-	-	-	-
	\$ 1,318,220	\$ 1,318,220	\$ -	\$ -	\$ -	\$ -

### 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.

	2007		2006	
Due to the Government of Yukon	\$	116,054	\$	116,054

### 6. Due to investors

	2007		2006	
Term loans from seven individual investors (\$250,000 each) bearing interest at 2%, interest 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%, interest payable annually, repayable 180 days after maturity, maturing July 30, 2007.	-	-	-	250,000
Term loans from one individual investor (\$250,000 each) bearing interest at 2%, interest payable annually, repayable 180 days after maturity, maturing July 15, 2008.	-	-	-	250,000
	-	-	-	2,250,000
Less current portion	-	-	-	2,000,000
	\$	-	\$	250,000

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# Yukon Government Fund Limited

## Notes to the Financial Statements

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December 31, 2007

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### 7. Share capital

	2007	2006
Authorized		
Unlimited number of shares without nominal or par value		
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. Recent accounting pronouncements

Recently the Canadian Institute of Chartered Accountants approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations:

#### Financial instruments

In January 2005, the Canadian Institute of Chartered Accountants issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for annual financial statements with fiscal years beginning on or after October 1, 2006 for publicly accountable entities and on or after October 1, 2007 for non-publicly accountable entities. Section 3855 Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 Financial Instruments – Disclosure and Presentation discusses the presentation and disclosure of these items. The application of hedge accounting is covered in Section 3865 Hedges. Section 1530 Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to hedges or other derivative instruments, outside of net income, in a statement of comprehensive income. Section 3251 Equity establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. There have also been numerous consequential amendments made to other Sections including those listed below. The company will be applying these new recommendations for its audited or review financial statement dated 2007. Transitional provisions are complex and vary based on the type of financial instruments under consideration. Therefore, the company has not yet determined the effect of these new standards on its financial statements.

#### Going concern

For fiscal years beginning on or after January 1, 2008 the Canadian Institute of Chartered Accountants issued recommendations for assessing and disclosing an entity's ability to continue as a going concern. Section 1400 (which was announced in June 2007) requires management to assess their ability to continue to as a going concern.

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# Yukon Government Fund Limited

## Notes to the Financial Statements

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December 31, 2007

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### Capital disclosures

In December 2006, the CICA issued Handbook section 1535 "Capital disclosures" which is effective for years beginning on or after October 1, 2007. The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with an capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosures and did not have an impact on the Company's financial results