



Pound-Maker Investments Ltd.

2006 Annual Report

CORPORATE PROFILE

Pound-Maker Investments Ltd. and its wholly owned subsidiaries Pound-Maker Agventures Ltd. and Pound-Maker Capital Corp (collectively “Pound-Maker” or the “company”) own and operate an integrated cattle feedlot and ethanol production facility near Lanigan, Saskatchewan. The business operations of Pound-Maker encompass the value added processing of renewable agricultural products. The company has developed production excellence for its two primary products, finished cattle and fuel grade ethanol. The operations of the company represent Canada’s first and only integrated feedlot and fuel ethanol facility, which commenced operations in 1991. At that time the feedlot division of the company had a one time feeding capacity of 18,500 head of cattle and the ethanol division had an annual production capacity of 10 million litres. Today, the company’s feedlot division has a one time feeding capacity of 29,000 head of cattle and the ethanol division has an annual production capacity of 13 million litres.

Feeder cattle are finished for wholesale processors utilizing feed rations comprised primarily of prairie grown feed barley and other prairie grown cereal grains, and forages including feed co-products produced from the company’s fuel ethanol manufacturing operations to produce top quality grades of beef. Ethanol, produced from prairie grown cereal grains, is the only renewable gasoline additive produced in Canada. Ethanol adds octane and oxygen to gasoline. These beneficial properties improve vehicle performance and significantly reduce harmful exhaust emissions. Co-products of the ethanol production process, wet distiller’s grains and thin stillage, which are high in protein and nutrients, are utilized as feed supplements in the feedlot operations. Pound-Maker is presently Saskatchewan’s largest beef producer and Canada’s only integrated feedlot and fuel ethanol manufacturer.

Pound-Maker Investments Ltd. is a Canadian controlled private corporation with over 200 shareholders, predominantly farmers and other local business people from in and around the Lanigan district of Saskatchewan. As a significant provider of jobs and spin-off benefits to local businesses, the company is a major contributor to the local economy of Lanigan and surrounding communities. Its operations represent a significant market for the sale of grains, forages and other feedstock by its shareholders and other local producers. Pound-Maker is a leading member of Saskatchewan’s and the broader Canadian value added agricultural and alternative energy sectors and members of its management are leading contributors to numerous provincial, national and international industry, and governmental and non-governmental organizations.

Contents

Our Vision	Board Chair’s Message to Shareholders	1
To be a leader in the profitable value added processing of agricultural products in an ethical and environmentally sustainable manner for the benefit of stakeholders.	President’s Message to Shareholders	2
	Management Discussion and Analysis – 2006	4
	Management’s Responsibility Statement	10
	Auditor’s Report	11
	Financial Statements and Notes	12
	Five Year Review	22

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors I am pleased to present Pound-Maker's Annual report for the fiscal year ended July 31st, 2006.

2006, followed closely by 2005, has proven to be the most profitable year in the history of the company. Low feed grain costs combined with record high petroleum prices, strong markets for finished beef and the increased demand for custom cattle feeding services were all factors that resulted in the ethanol and feedlot divisions both having another excellent year financially.

The company was able to fulfill its objective of providing a local market for feed grains for its shareholders once again this year. The company continues to make it a priority to purchase feed grains from its shareholders, thereby offering shareholders a local market opportunity during a period where there has been an abundant supply of feed grains. The company's recent financial successes have allowed shareholders to earn additional profits through their ownership interest in the company's value-added operations. Accordingly I am pleased to announce that the Board of Directors has approved the distribution of a dividend in the amount of \$321,500.00 or 50¢ per share to all shareholders of record as at October 31st, 2006.

The record profits that the company has earned during the past two years, has resulted in the company having its strongest financial position since its inception. This is particularly remarkable given the potential impact and uncertainty that was experienced a few years ago with the discovery of BSE in Canada and the impact that this had on our cattle markets.

The Board of Directors continues to search for new and synergistic investment opportunities that would increase market opportunities and the opportunity to enhance shareholder value. There is considerable interest in the biofuels area, however, at this time it is not clear as to what the potential government legislation for a Canadian Renewable Fuels Standard will entail and what exactly the opportunities might be for Pound-Maker. Similarly, there is continued interest by various parties in the development of new and/or expanded cattle feeding opportunities. It is our intention to continue to monitor and evaluate potential opportunities as they arise.

In January of 2006 the company initiated its Internet based share trading program with the goal of improving the value and liquidity of the shareholders investment in the company. This program is another "first in Canada" for Pound-Maker and has attracted the attention of not only potential shareholders but many other like organizations throughout Canada. I am pleased to say that we have seen a significant increase in the volume of shares traded and have also seen the average share price increase from \$4.63 to \$8.61 since the inception of this program.

In closing, on behalf of the board, I would like to commend our management team, and all employees on a job well done. We have stayed true to our vision despite some very uncertain and perhaps very trying times, and this has allowed us to capitalize on the market opportunities these past two years and to provide excellent returns both, direct and indirect, to our stakeholders.



Mylles Wildeman
Board Chair and President
Pound-Maker Investments Ltd.

MESSAGE TO SHAREHOLDERS

It is an honor for me to report to you again this year on the activities and results of last years operations. It has been a year that has yielded a record profit for our shareholders.

During the past year, we have seen the cattle markets return to more normal pricing patterns following the upsets brought on by the discovery of BSE in Canada. The freer movement of both feeder cattle and finished cattle to the United States has stabilized the fluctuations of prices between our two countries, but has also brought considerably more competition for feeder cattle supplies from US buyers. The excess supplies of feed corn in the US, and the subsequent low prices for feedstocks have made the US feedlots very competitive relative to Canadian feeding operations over the past year. This trend is expected to continue for the current year as well, as it appears there will be abundant corn supplies for the next 12 months in the US.

Our strategy to increase our custom feeding activity, while lessening our company owned cattle feeding, has proven to be a good decision. Saskatchewan continues to be the lowest cost region in Canada for cattle finishing. This has encouraged investor feeders that normally fed exclusively in other provinces to increase their feeding activities in Saskatchewan. Pound-Maker's reputation as a superior cattle feeder has allowed us to capture this growing opportunity. It is the Company's intention to continue to maintain higher levels of custom feeding activity in the coming year.

The ethanol division has continued to reap the benefits of higher ethanol sales prices, and demand for our production has remained strong. While operating costs have increased somewhat, they have been more than offset by the higher sales returns. With the imminent start up of the Husky Energy ethanol plant at Lloydminster, the customer base for Pound-Maker ethanol will change significantly. Due to the Saskatchewan ethanol mandate legislation, gasoline retailers will now be required to offer ethanol blended fuels at all retail facilities. They will also be required to purchase ethanol, produced in Saskatchewan, equivalent to at least 7.5% of their retail gasoline sales. Of this ethanol volume, they are required to purchase at least 30% of the ethanol from ethanol producers with a plant capacity of less than 25 million litres. Husky will be exempt from this requirement as they will be allowed to access all their ethanol needs from their own facility. As a result, we will now be supplying the "small-scale" ethanol for other major gas retailers in Saskatchewan. Supply contracts are presently being finalized, and will result in contractual arrangements for virtually all of Pound-Maker's production for the next 3 years.

The company continues to seek ways to enhance our present operations, as well as look forward to new opportunities. Over the past year, we have invested in upgrading our rolling stock; primarily additional equipment to allow us to move a greater percentage of our manure internally. The company has also purchased some land to allow us flexibility in spreading manure, as well as providing additional grazing capacity for summer feeding activity. In the ethanol division, we have been actively evaluating the increased efficiencies that de-branning the ethanol feedstocks as a pre-process prior to milling will bring to the ethanol operations. It is anticipated that this and other upgrades will be added to the ethanol facility to improve both throughput and efficiency over the next year and beyond.

We continue to monitor other opportunities to increase our business activities, either through diversifying our own operations, or through expansion. We have been approached several times to enter into joint venture opportunities. However, these need to be assessed based on the benefits that will accrue to our shareholders as our first priority.

Since 2003, the Company has embarked on a strategy to strengthen our financial position; to create a financial position that would allow it to pursue new investment opportunities, while also providing stable dividends to its shareholders. Due to the recent financial success we have enjoyed, we are now in an excellent position to accomplish both of these objectives. Subsequent to our year end, we have repaid additional term loans to Farm Credit Corporation; and our last full payment to WDO will be made on December 31st of this year. When the company decides to pursue new opportunities, it will be in a very sound financial position to proceed, while honoring its intention to pay regular returns to its shareholders.

As always, there are uncertainties facing us over the coming months. Feedstock prices are rising relatively quickly; gasoline prices, tied to oil prices, have stabilized and are decreasing, and cattle feeding margins have become very tight recently. The uncertainty of the impact of the promised federal ethanol mandate, while encouraging greater ethanol usage throughout Canada, may create challenges for our own ethanol operation, by lowering tax exemptions, and removing the protection for ethanol production facilities that produce less than 25 million litres.

Additionally, due primarily to the boom in the petroleum industry, both the availability and cost for labor, have increased substantially. While we continue to enjoy a very low employee turnover rate by industry standards, it is difficult to compete with the resource sector in wages and benefits. Our past attention to providing a rewarding, fulfilling, and compassionate workplace has proven its worth over the past year, and we will continue to seek new ways to provide our employees with innovative reward programs, while maintaining our competitive labor cost structure.

In closing, I want to thank all our committed employees, both old and new; our dedicated management team; and our Board of Directors for their support, commitment, guidance and vision throughout the past year. We look forward to another year with confidence that whatever the circumstance, we have a capable team prepared to address the issues we will face. Thank you for the opportunity to serve this company as its President for another year.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brad Wildeman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Brad Wildeman
President
Pound-Maker Agventures Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS – 2006

Unless otherwise indicated, references herein to: “Pound-Maker” or the “company” refers to Pound-Maker Investments Ltd., and its wholly owned subsidiaries, Pound-Maker Agventures Ltd. and Pound-Maker Capital Corp. (formerly 101025221 Saskatchewan Ltd.) and “year” refers to the company’s fiscal years ending July 31. The financial data in this management discussion and analysis (“MD&A”) has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), unless otherwise stated, and is in Canadian dollars. This MD&A should be read in conjunction with the company’s consolidated annual financial statements for the years to which the MD&A relates.

Selected Annual Information

Years ended July 31			
	2006	2005	2004
	(In thousands except per share and percentage amounts)		
Sales revenue	\$38,478	\$40,498	\$47,859
- Number of cattle marketed ⁽¹⁾	36	43	46
- Litres of ethanol	12,116	11,807	11,425
Net earnings (loss)	\$3,991	\$3,072	(\$463)
- Per share ⁽²⁾	\$6.21	\$4.78	(\$0.72)
Shareholders’ equity	\$12,415	\$9,067	\$5,995
-Per share ⁽²⁾	\$19.31	\$14.10	\$9.32
Return (loss) on shareholders’ equity	37.2%	40.0%	(7.1)%
Capital expenditures	\$457	\$366	\$88
Total assets	\$24,153	\$21,278	\$20,885
Long term liabilities ⁽³⁾	\$5,393	\$6,274	\$7,408
Dividends on Class “A” common shares	\$643	\$ -	\$ -
Notes:			
⁽¹⁾ Includes cattle fed and owned by company (“company cattle”) and cattle fed by the company but owned by others (“custom cattle”).			
⁽²⁾ The company has no stock option or similar plans, no securities convertible into shares and no obligations to issue any shares in the future such that earnings (loss) and equity per share are the same on a non-diluted as a fully diluted basis.			
⁽³⁾ Includes current portion of long-term debt and excludes future income taxes.			

Results of Operations

The company had earnings from operations for the year ending July 31, 2006 of \$5,091,000 (\$3,991,000 after provision for taxes), as compared to earnings from operations in 2005 of \$4,709,000 (earnings of \$3,072,000 after provision for recovery of taxes). This marks the most profitable year in the history of the company.

Sales for fiscal 2006 were \$38.5 million, a decrease of \$2.0 million (4.9%) over 2005. The decline in sales is primarily attributable to a reduction in the number of company cattle marketed during the year as compared to fiscal 2005. Conversely, revenues for the ethanol division were up, as prices received by the company for its ethanol are directly tied to gasoline prices and, accordingly, benefited from record high oil prices during much of the year.

Cost of sales has decreased in the current year, leading to an increase of 2.6% in the gross margin percentage. This is due in large part to reductions in the cost of feed grains. Feedstock costs for both the cattle feeding and fuel ethanol divisions were \$9.5 million, \$1.4 million less than in 2005.

Operating and administrative expenses have increased for fiscal 2006 as compared to 2005 due to the increased costs of fuel, wages, repairs and maintenance and profit sharing.

MANAGEMENT DISCUSSION AND ANALYSIS – 2006 – (Continued)

Future income taxes decreased for fiscal 2006 as compared to 2005 due to the 3.12% decrease in federal future tax rate, announced in the 2006 federal budget and the 1.68% decrease in provincial future tax rate announced in the 2006 provincial budget resulting in a decrease in the current future tax position of \$513,000.

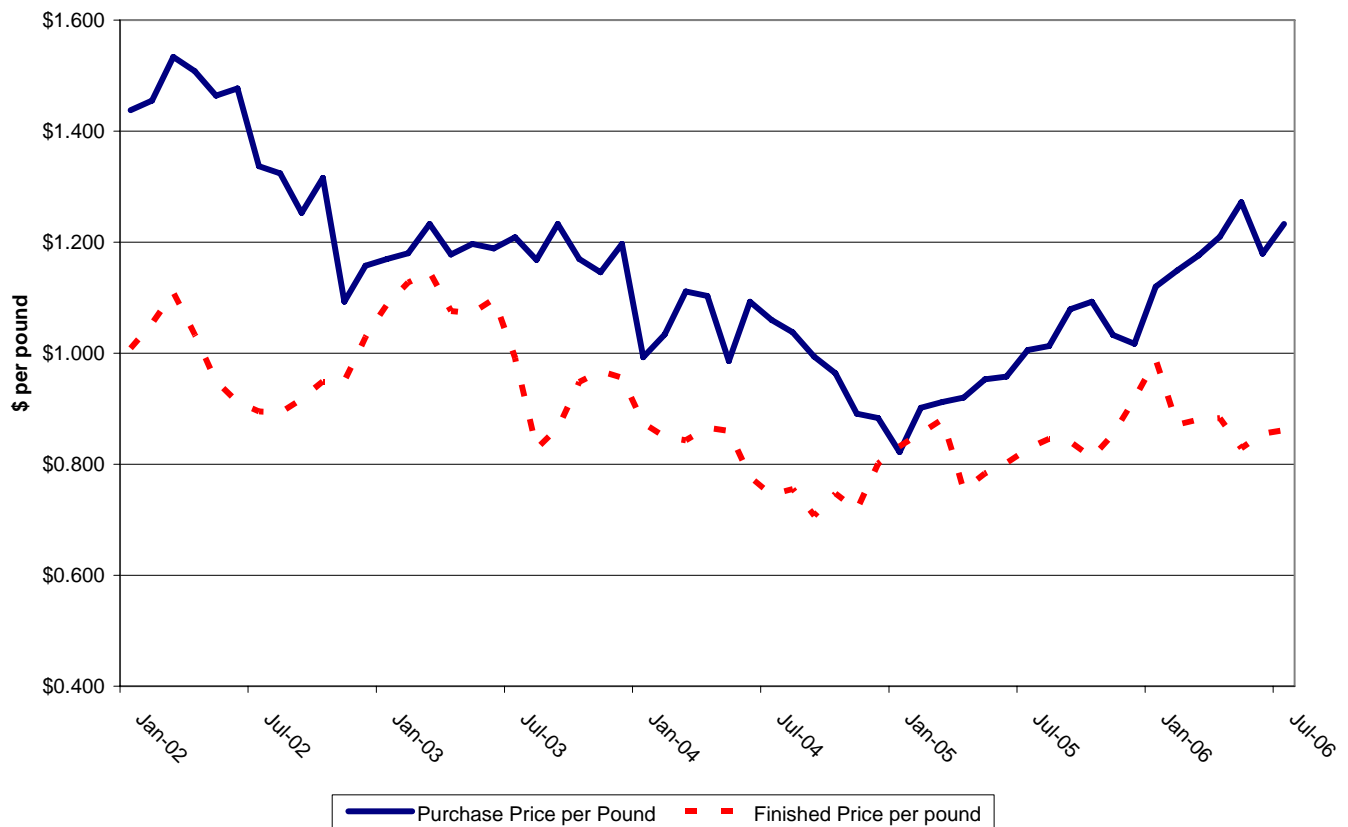
Cattle Feeding Division

Cattle sales for fiscal 2006 decreased approximately \$5 million compared to the sales in 2005. One of the reasons for the change was an overall decrease in the number of cattle marketed. The company marketed 38,948 head of cattle (17,832 company cattle and 21,116 custom cattle) in fiscal 2006, compared to marketings of 43,102 head (24,261 company cattle and 18,841 custom cattle) in 2005. The decrease in 2006 marketings compared to 2005 marketings was a direct result of a management decision to reduce the company's exposure to market risk and to take advantage of increased opportunities in feeding additional custom cattle. Revenue decreased further as a result of lower prices being received for the cattle that were marketed.

Sales for fiscal 2006 include \$491,000 that has been received by the company for the 2003 program year under the Canadian Agricultural Income Stabilization program ("CAIS"). Management believes that the company may also be eligible for additional assistance for the 2003 program year under the CAIS Inventory Transition Initiative. However, as at October 4, 2006 no assistance had been received by the company in respect of this initiative and, due to the measurement uncertainty related to program eligibility, reimbursement rate and termination date, no revenue has been reported or accrued for under CAIS for this initiative.

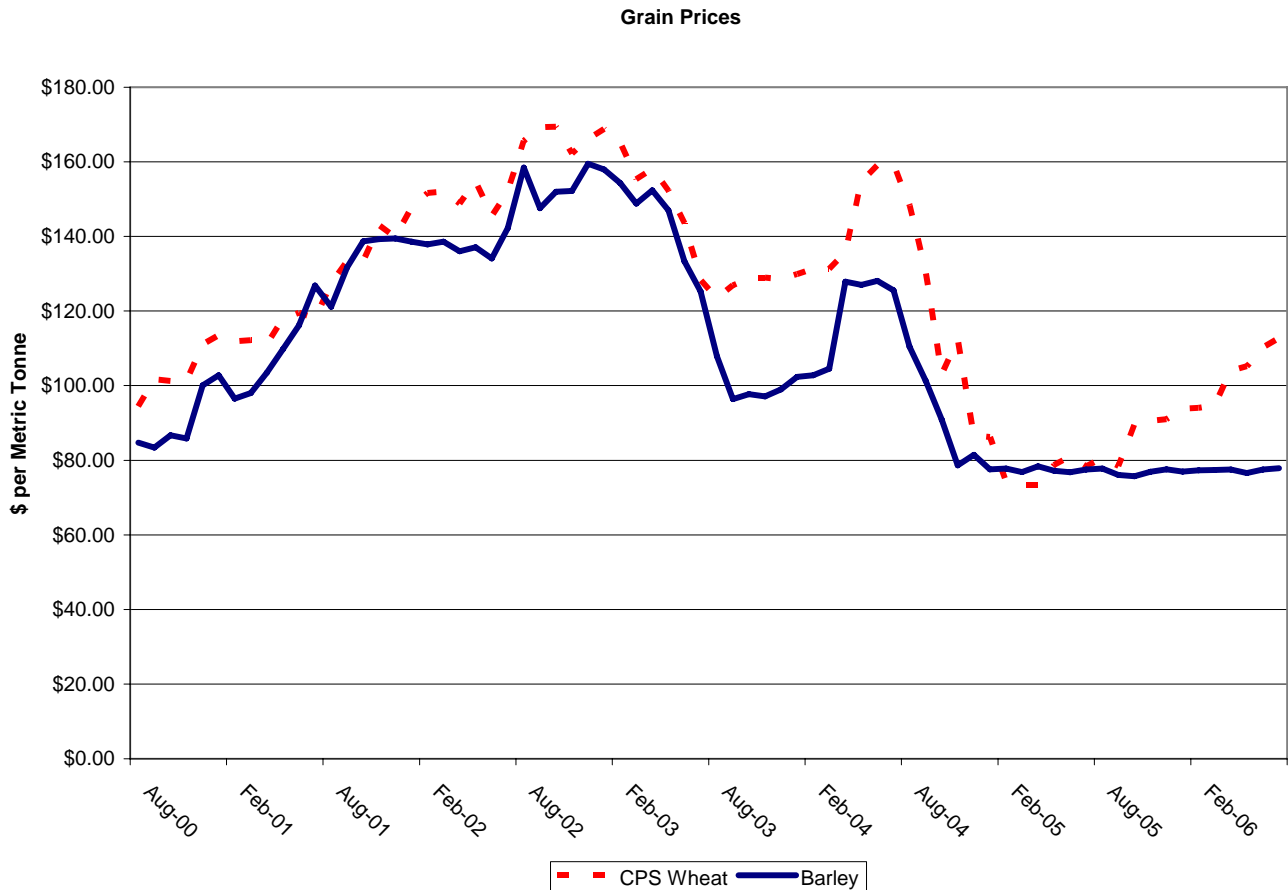
Gross margins on company purchased cattle decreased for fiscal 2006 over those of fiscal 2005. This is due to a decrease in the price spread between finished and feeder cattle prices. The finished and feeder cattle prices per pound are illustrated below.

Cattle Prices



MANAGEMENT DISCUSSION AND ANALYSIS – 2006 – (Continued)

Feed costs for the cattle feeding division decreased by 13.6% as compared to the previous year as a result of lower grain costs. The following graph represents CPS wheat and barley prices over the last number of years.



The utilization rate of the feedlot increased slightly to 77.0% this year as compared to 74.1% in the previous year.

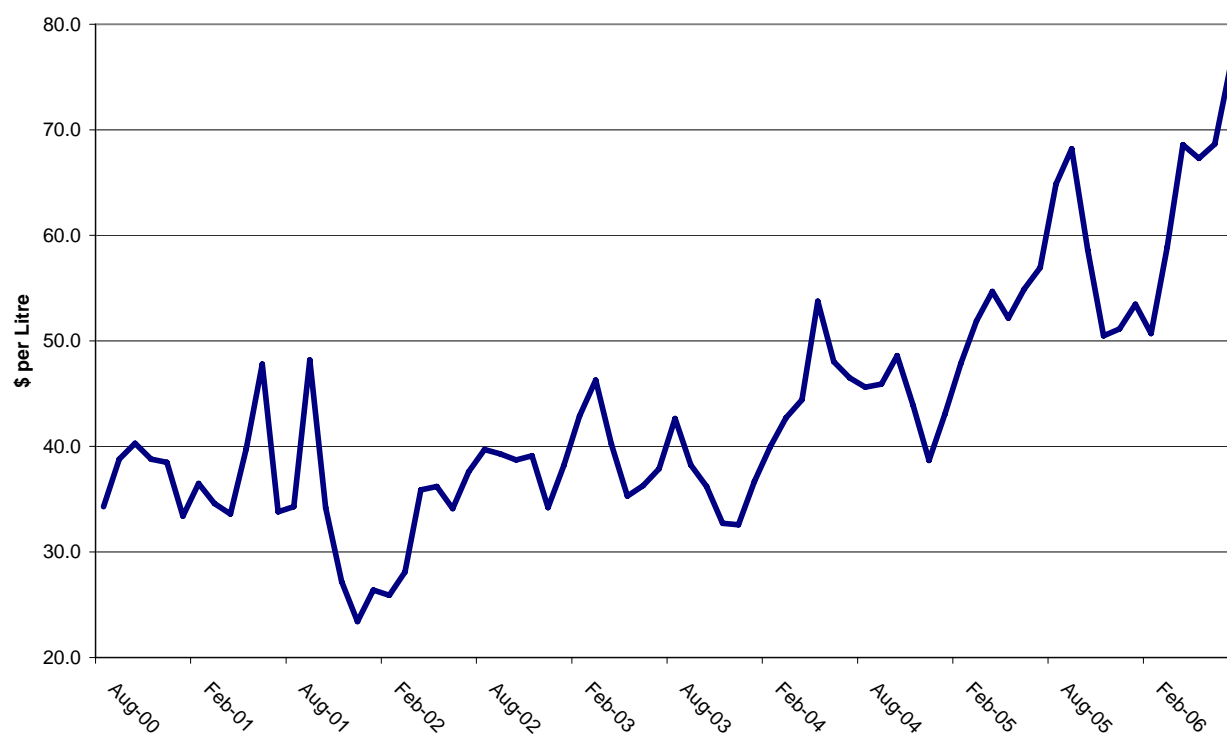
Fuel Ethanol Division

Net operating profit for the ethanol division was at a record high in fiscal 2006. The record profits are a result of the increase in the selling price of fuel ethanol coupled with the decrease in feedstock costs.

Fuel ethanol sales for 2006 totalled 12.1 million litres, an increase of 2.6% over 2005. Fuel ethanol production volumes were adversely affected by the poor quality and lower starch content of feedstocks that were available for processing. While the total litres produced has increased 3%, the total ethanol sales revenues have increased 22% due to the record high rack prices of gasoline as depicted in the following graph.

MANAGEMENT DISCUSSION AND ANALYSIS – 2006 – (Continued)

Rack Prices



Summary of Semi Annual Results

	In thousands except per share results		
	Fiscal 2006		
	Year ended July 31	6 months ended July 31	6 months ended Jan 31
Total revenues	\$38,478	\$16,740	\$21,738
Net earnings (loss)			
-Total	\$3,991	\$1,781	\$2,210
-Per share ⁽¹⁾	\$6.21	\$2.77	\$3.44
	Fiscal 2005		
Total revenues	\$40,498	\$21,766	\$18,732
Net earnings (loss)			
-Total	\$3,072	\$2,316	\$756
-Per share ⁽¹⁾	\$4.78	\$3.60	\$1.18

Notes:

Results for the quarters ended October 31 and April 30 are omitted because the company is exempt from filing interim financial statements and related MD&A for these interim periods.

⁽¹⁾ The company has no stock option or similar plans, no securities convertible into shares and no obligations to issue any shares in the future such that the outstanding shares of the company are the same on a non-diluted and fully diluted basis.

MANAGEMENT DISCUSSION AND ANALYSIS – 2006 – (Continued)

Liquidity and Capital Resources

As at July 31, 2006 the company's total capitalization, including shareholder equity and long-term debt (including the current portion of long-term debt) was \$17,808,000 (2005 - \$15,341,000). Shareholders' equity includes \$12,415,000 (\$19.31 per share) in common share capital (2005 - \$9,067,000, \$14.10 per share).

The company's long-term debt is comprised of the following components:

- A repayable contribution made by the Government of Canada, Western Diversification Office ("WDO"). The contribution is unsecured, repayable in minimum annual installments of \$355,000, including interest at 2.4% per annum and matures January 1, 2008. As of July 31, 2006 \$430,000 remained outstanding in respect of this WDO contribution (2005 - \$768,000).
- Two loans by Farm Credit Canada, both made in fiscal 2002 in the original principal amount of \$3,250,000, with interest at the lender's closed variable mortgage rate less 0.6%. During fiscal year July 31, 2006, the company exercised the option to convert FCC loan #2 to a five year closed term at 5.9%. Loan #1 is amortized over ten years and repayable in monthly instalments of \$34,000 and matures November 1, 2010 while loan #2 is amortized over ten years and repayable in monthly installments of \$34,000 and matures August 1, 2013. As of July 31, 2006 \$4,963,000 was outstanding under these loans (2005 - \$5,506,000). The loans are secured by a \$10 million mortgage on all property, plant and equipment, a general security agreement granting a second charge security interest in all other assets of Pound-Maker Agventures Ltd., and a \$6,500,000 guarantee by Pound-Maker Investments Ltd. On September 7, 2006, the company completed the early repayment of FCC Loan #1 of \$2,479,000 including interest. This repayment was funded from working capital.

The company has operating credit facilities with a Canadian chartered bank to a maximum of \$20,000,000 (subject to margining requirements) of which none was outstanding as of July 31, 2006.

The company's loan agreements with both its term and operating lenders include covenants requiring the company to maintain certain financial ratios. As of July 31, 2006, the company was in compliance with all of its covenants. Management expects that the company will remain in compliance with these covenants throughout the 2007 fiscal year. The following table summarizes the company's key financial ratios at the end of each of its last three fiscal years.

Key Financial Ratios	2006	2005	2004
Current ratio ⁽¹⁾	5.09	4.59	2.37
Long-term debt to equity ⁽¹⁾	0.44	0.69	1.24
Debt to equity ⁽¹⁾	0.65	0.94	2.04

⁽¹⁾ Excludes future income taxes

Risks and Uncertainties

The cyclical nature of beef prices will impact the future revenues of the company's cattle feeding operations. This price is impacted by supply and demand factors throughout Canada and North America.

Historically, the company has been exposed to fluctuations in U.S. currency as the selling price for cattle in Canadian markets is primarily established in the U.S. and converted to Canadian dollars. The recent increase in the Canadian dollar relative to the U.S. dollar has put further downward pressure on the price realized by Canadian producers. However, since the BSE crisis, the Canadian processing capacity has been increasing, thereby reducing the company's reliance on the US export market and exposure to fluctuations in the U.S. currency.

The world price of oil impacts the future revenues of the company's ethanol operations. This price is impacted by supply and demand factors throughout North America and the world. Additionally, the price of ethanol is impacted by Federal and Provincial incentive programs, and these programs may be subject to change at the governments' discretion.

MANAGEMENT DISCUSSION AND ANALYSIS – 2006 – (Continued)

The single largest expense for the company is feeder cattle costs. Feeder cattle costs fluctuate due to changes in supply, the availability and cost of feed grains, and the expected selling price to be received from the finishing of the animal for slaughter.

The second largest expense for the company is feedstock costs. Feed costs fluctuate due to a variety of factors including weather conditions, regional crop production yields, and world crop production and inventory levels.

The company mitigates its exposure to a certain extent by purchasing feeder cattle and/or feedstocks on a forward contracting basis from time to time.

Future Outlook

The future outlook for the company's feedlot division is positive. Good supplies of feed stock are available locally. Customer interest in the company's custom cattle feeding services is expected to remain strong throughout the foreseeable future.

Petroleum prices, while moderating are expected to remain relatively strong over the next year. It is not possible to predict what the impact may be to the company of any changes in Federal and/or Provincial regulations in respect of ethanol blended fuels until such time as the changes to these regulations, if any, are known with certainty.

Outstanding Share Data

The company's authorized share capital consists of an unlimited number of Class "A" common shares and an unlimited number of Class "B" preferred shares issuable in series. The number of shares outstanding at both July 31, 2006 and July 31, 2005 was 643,000 common shares and no preferred shares. No shares were issued during fiscal 2006 and \$643,000 of dividends were paid to shareholders.

Additional Information

Additional information related to Pound-Maker Investments Ltd. can be found on the SEDAR website at www.sedar.com.

Management's Responsibility

To the Shareholders
Pound-Maker Investments Ltd.

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Audit Committee is appointed by the Board to review the consolidated financial statements in detail with management and to report to the Board prior to their approval of the consolidated financial statements for publication.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

September 26, 2006



President



Chief Financial Officer

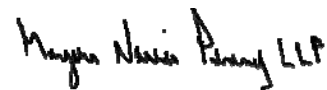
To the Shareholders:
Pound-Maker Investments Ltd.

We have audited the consolidated balance sheet of **Pound-Maker Investments Ltd.** as at July 31, 2006 and the consolidated statements of earnings 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 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.

Saskatoon, Canada
September 26, 2006



Chartered Accountants

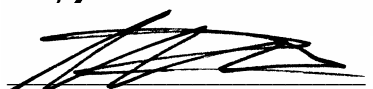
Pound-Maker Investments Ltd.
Consolidated Balance Sheet

For the year ended July 31, 2006

	2006	2005
Assets		
Current		
Cash	610,000	622,000
Accounts receivable	3,784,000	3,005,000
Prepaid expenses	107,000	167,000
Inventory (Note 3)	13,301,000	10,625,000
	17,802,000	14,419,000
Property, Plant and Equipment (Note 4)	6,253,000	6,743,000
Start-Up and Organizational Costs (Note 5)	98,000	116,000
	24,153,000	21,278,000
Liabilities		
Current		
Accounts payable and accrued liabilities	2,143,000	1,675,000
Corporate taxes payable	467,000	578,000
Current portion of long-term debt (Note 7)	891,000	891,000
Future income taxes (Note 11)	3,013,000	2,674,000
	6,514,000	5,818,000
Long-Term Debt (Note 7)	4,502,000	5,383,000
Future Income Taxes (Note 11)	722,000	1,010,000
	11,738,000	12,211,000
Commitments (Note 16)		
Subsequent events (Note 14)		
Shareholders' Equity		
Share capital (Note 8)	1,443,000	1,443,000
Contributed surplus (Note 9)	1,055,000	1,055,000
Retained earnings	9,917,000	6,569,000
	12,415,000	9,067,000
	24,153,000	21,278,000

ON BEHALF OF THE BOARD

 Director

 Director

Pound-Maker Investments Ltd.
Consolidated Statement of Earnings and Retained Earnings
For the year ended July 31, 2006

	<i>2006</i>	<i>2005</i>
Sales	38,478,000	40,498,000
Cost of goods sold (Note 10)	29,108,000	31,689,000
Gross profit	9,370,000	8,809,000
Expenses		
Operating and administrative	3,155,000	2,992,000
Depreciation and amortization	965,000	957,000
Interest on long-term debt	159,000	151,000
	4,279,000	4,100,000
Earnings from operations	5,091,000	4,709,000
Provision for corporate taxes (Note 11)		
Future	51,000	1,018,000
Current	1,049,000	619,000
	1,100,000	1,637,000
Earnings for the year	3,991,000	3,072,000
Retained earnings, beginning of year	6,569,000	3,497,000
	10,560,000	6,569,000
Dividends	(643,000)	-
Retained earnings, end of year	9,917,000	6,569,000
Earnings per share (Note 12)		
Basic and diluted	6.21	4.78

Pound-Maker Investments Ltd.
Consolidated Statement of Cash Flows

For the year ended July 31, 2006

	2006	2005
Cash provided by (used in) the following activities		
Operating		
Net earnings for the year	3,991,000	3,072,000
Charges to operations not affecting cash		
Future income taxes	51,000	1,018,000
Depreciation and amortization	965,000	957,000
Gain on sale of property, plant and equipment	(5,000)	(42,000)
	5,002,000	5,005,000
Change in non-cash working capital balances related to operations		
Accounts receivable	(779,000)	(259,000)
Corporate taxes payable	(111,000)	699,000
Prepaid expenses	60,000	(109,000)
Inventory	(2,676,000)	(125,000)
Accounts payable	468,000	(123,000)
	1,964,000	5,088,000
Investing		
Purchase of property, plant and equipment	(457,000)	(366,000)
Proceeds from sale of property, plant and equipment	5,000	52,000
	(452,000)	(314,000)
Financing		
Dividend paid	(643,000)	-
Increase (decrease) in bank indebtedness	-	(3,018,000)
Repayment of long-term debt	(881,000)	(822,000)
Repayment of subordinated shareholders' loans	-	(312,000)
	(1,524,000)	(4,152,000)
Net increase (decrease) in cash resources	(12,000)	622,000
Cash resources, beginning of year	622,000	-
Cash resources, end of year	610,000	622,000
Supplementary Cash Flow Information		
Interest paid	293,000	344,000
Corporate tax paid	1,156,000	(81,000)

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements
For the year ended July 31, 2006

1. Nature of Business

Pound-Maker Investments Ltd. ("PMI") is a private company incorporated under The Saskatchewan Business Corporations Act. Its principal activity is the holding, monitoring and management of its investment in Pound-Maker Agventures Ltd. ("PMA"). Pound-Maker Agventures Ltd. operates an integrated cattle finishing feedlot and fuel ethanol manufacturing facility at Lanigan, Saskatchewan.

2. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of Consolidation

PMI has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of inter-company transactions and balances. The consolidated financial statements of PMI, in this context referred to as "the Company", include the accounts of PMI, and its wholly owned subsidiaries, PMA and Pound-Maker Capital Corp. (formerly 101025221 Saskatchewan Ltd.)

Inventory

Finished goods inventory is valued at the lower of cost and estimated net realizable value. Work-in-progress and purchased inventory is valued at the lower of cost and replacement cost.

The cost of cattle inventory consists of the invoiced cost of cattle purchased, plus the cost of inputs for feed and bedding, veterinary supplies, wages and interest charges.

The cost of ethanol inventory consists of feedstock cost, plus the cost of inputs for processing supplies, utilities, blending fuel and wages.

Property, Plant and Equipment

The Company records property, plant and equipment at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged against operations as incurred.

Depreciation is provided on property, plant and equipment over their estimated useful lives, using the straight-line method, except for automotive equipment which is amortized using the declining balance method.

Start-Up and Organizational Costs

Start-up costs are costs incurred relating to the commencement of ethanol manufacturing operations, and include net operating costs during the start-up period. Organizational costs include the costs of investigation, planning and assessing feasibility as well as corporate strategic development incurred prior to the commencement of active operations.

Start-up and organizational costs are being amortized over their estimated period of future benefits of twenty years using the straight-line method.

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements

For the year ended July 31, 2006

2. Significant Accounting Policies (continued)

Future Income Taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Long-lived Assets

Long-lived assets consist of property, plant and equipment and start up costs. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Discounted cash flows are used to measure fair value of long-lived assets.

Government Assistance

Canadian Agricultural Income Stabilization program revenue, which is based on the current year's profit as compared to the average profit over three of the five years immediately prior to the year end, is recognized once collection occurs. During the July 31, 2006 fiscal year \$491,000 (July 31, 2005 \$952,000) has been received for the July 31, 2003 program year. The Company may be eligible for additional assistance for the July 31, 2003, 2004, 2005 and 2006 program years.

Revenue Recognition

The Company's revenues are generally derived as part of a written or presumed contract arrangement with the recipient (customer/client). Revenue is recognized when persuasive evidence of an arrangement exists, when delivered in accordance with all terms and conditions of the arrangement, when the fee is fixed or determinable, and when collection is reasonably assured.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for items and matters such as inventory, long-term contracts, allowance for uncollectible accounts receivable, amortization, asset valuations, employee benefits, taxes, and contingencies. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they became known.

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements

For the year ended July 31, 20065

3. Inventory

	2006	2005
Cattle	11,675,000	8,865,000
Feedstocks	865,000	1,038,000
Ethanol	729,000	332,000
Supplies	32,000	390,000
	13,301,000	10,625,000

4. Property, Plant and Equipment

				2006	2005
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	-	378,000	-	378,000	283,000
Office, feedlot and feedlot equipment	4%-10%	4,923,000	2,945,000	1,978,000	2,108,000
Feedmill	6.67%	1,063,000	876,000	187,000	231,000
Ethanol plant and processing equipment	5%-10%	12,741,000	9,770,000	2,971,000	3,574,000
Automotive equipment	20%	2,101,000	1,362,000	739,000	547,000
		21,206,000	14,953,000	6,253,000	6,743,000

5. Start-Up and Organizational Costs

	2006	2005
Start-up costs	243,000	243,000
Organizational costs	138,000	138,000
	381,000	381,000
Accumulated amortization	283,000	265,000
Net book value	98,000	116,000

6. Operating Credit Facility

The Company has operating credit facilities with a Canadian chartered bank to a maximum of \$20,000,000 of which none was outstanding as of July 31, 2006. The operating loan bears interest at bank prime and is payable monthly. The loan is secured under Section 427 of the Bank Act by the assets of PMA and by an unlimited guarantee by PMI.

The terms of the operating loan require that certain measurable financial covenants be met. At July 31, 2006 the Company was in compliance with its covenants and it is management's view that the Company will not violate covenants at future compliance dates within one year of the balance sheet date.

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements

For the year ended July 31, 2006

7. Long-term Debt	2006	2005
Department of Western Economic Diversification program loan - unsecured, repayable in minimum annual installments of \$355,000 including interest at 2.4% per annum. The loan matures January 1, 2008.	430,000	768,000
Farm Credit Canada loan #1 - repayable in monthly instalments of \$34,000 including interest at FCC's closed variable mortgage rate less 0.6% (6.4% at July 31, 2006; 4.65% at July 31, 2005). The loan matures November 1, 2010.	2,486,000	2,753,000
Farm Credit Canada loan #2 - repayable in monthly instalments of \$34,000 including interest at 5.9% (4.65% at July 31, 2005; 4.15% at July 31, 2004). The loan matures August 1, 2013.	2,477,000	2,753,000
	5,393,000	6,274,000
Less current portion	891,000	891,000
	4,502,000	5,383,000

The Farm Credit Canada ("FCC") loans are secured by a \$10,000,000 collateral mortgage on the property, plant and equipment of PMA, a general security agreement granting a second charge security interest in all other assets of PMA, and a \$6,500,000 guarantee by PMI.

During the fiscal year ended July 31, 2006, the Company exercised the option to convert FCC loan #2 to a five year closed term at 5.9%.

As described in Note 14, FCC loan #1 was repaid subsequent to year end. Principal repayment of long-term debt over the next five years reflect this repayment.

The terms of the FCC loans require that certain measurable financial covenants be met. At July 31, 2006 the Company was in compliance with its covenants and it is management's view that the Company will not violate covenants at future compliance dates within one year of the balance sheet date.

Principal repayments of long-term debt due over the next five years are as follows:

2007	\$ 3,120,000
2008	392,000
2009	325,000
2010	345,000
2011	365,000

8. Share Capital	2006	2005
Authorized: Unlimited number of Class A common voting shares Unlimited number of Class B shares		
Issued: 643,000 Class A common shares (balance as at July 31, 2005 and 2006)	1,443,000	1,443,000
	1,443,000	1,443,000

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements
For the year ended July 31, 2006

9. Contributed Surplus

Contributed surplus was created on the acquisitions of two 22% minority interests in December 2000 and January 2002 at amounts that were less than the carrying amounts.

10. Cost of Goods Sold

	2006	2005
Cattle	15,344,000	16,905,000
Feedstocks	9,810,000	10,883,000
Production costs	3,824,000	3,691,000
Interest	130,000	210,000
	29,108,000	31,689,000

11. Income Taxes

The components of future income tax liabilities, valued at the Company's marginal income tax rate of 29.7% (2005-34.5%), are as follows:

	2006	2005
Timing differences related to cash reporting for income taxes (current)	3,013,000	2,674,000
Timing differences related to property, plant and equipment (long-term)	722,000	1,010,000
	3,735,000	3,684,000

The income tax expense differs from the amount that would be expected by applying the current income tax rates for the following reasons:

	2006	2005
Earnings before income taxes for the year	5,089,000	4,709,000
Expected tax expense at 39.1% (2005 – 39.1%)	1,990,000	1,839,000
Increase (decrease) in expense due to:		
Manufacturing and processing credit	(268,000)	(217,000)
Rate changes	(606,000)	-
Other	(16,000)	15,000
	1,100,000	1,637,000

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements
For the year ended July 31, 2006

12. Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year of 643,000 (2005 – 643,000). There are no dilutive instruments outstanding at year end.

13. Segment information

The Company operates an integrated feedlot and fuel ethanol facility in the Province of Saskatchewan. Although certain information for each operation is available, the two operations are highly integrated, requiring management and resource allocation decisions as well as performance measurements to be done on a consolidated basis.

Consequently management considers the Company's operations to be the value added processing of agricultural products which is one segment for financial reporting purposes.

14. Subsequent Events

On September 7, 2006, the company completed the early repayment of FCC Loan #1 at \$ 2,479,000 including interest. This repayment was funded from working capital.

15. Related Party Transactions

PMI is the parent company of PMA. Some of the shareholders, members of the Boards of Directors and management of both companies have supplied material amounts of cattle and feedstocks to the Company. Transactions with related parties are in the ordinary course of business are recorded at the exchange amount and are made on the same terms and conditions as transactions with unrelated parties.

16. Commitments

The sale of fuel grade ethanol is governed by the terms of an agreement established between the Company and Husky Oil. Terms related to the pricing formula and annual volumes are subject to negotiation annually.

17. Financial Instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Credit Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables from major packing plants, or their agents, represent approximately 42% (2005 - 45%) of outstanding accounts receivable. Receivables related to the oil industry represent approximately 52% (2005 - 53%) of the total outstanding. Credit risk is not considered to be significant as the major customers identified all operate nationally and/or multi-nationally across a diversity of industries. As a result, their creditworthiness will not be subject to material adverse effect from events in any one industry or geographic location.

Pound-Maker Investments Ltd.
Notes to the Consolidated Financial Statements
For the year ended July 31, 2006

17. Financial Instruments (continued)

Fair Value Disclosure

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Receivables	3,784,000	3,784,000	3,005,000	3,005,000
Accounts payable	2,143,000	2,143,000	1,675,000	1,675,000
Long-term debt	5,393,000	5,376,000	6,274,000	6,194,000

The estimated fair values of the financial assets and liabilities included in current assets and current liabilities in these financial statements approximate their carrying amounts on the balance sheet due to the relatively short period to maturity of these items.

The fair values of long-term debt are estimated using discounted cash flows based upon the Company's current borrowing rates for similar borrowing arrangements.

FIVE YEAR REVIEW - CONSOLIDATED**(For the years ended July 31)**

	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Financial					
Sales revenue	\$38,478,000	\$40,498,000	\$47,859,000	\$45,048,000	\$56,621,000
Net earnings (loss)	\$3,991,000	\$3,072,000	(\$463,000)	(\$340,000)	(\$2,111,000)
Net earnings (loss) per share	\$6.21	\$4.78	(\$0.72)	(\$0.53)	(\$3.28)
Long-term debt	\$5,393,000	\$6,274,000	\$7,096,000	\$7,457,000	\$8,230,000
Net working capital (excluding future income taxes)	\$14,301,000	\$11,275,000	\$7,767,000	\$8,014,000	\$8,681,000
Total assets	\$24,153,000	\$21,278,000	\$20,885,000	\$29,517,000	\$26,927,000
Shareholder's equity end of year	\$12,415,000	\$9,067,000	\$5,995,000	\$6,458,000	\$6,798,000
Shareholder's equity per share end of year	\$19.31	\$14.10	\$9.32	\$10.04	\$10.57
Operational					
Number of cattle marketed					
Company	17,832	24,261	30,787	24,000	37,241
Custom	<u>21,116</u>	<u>18,841</u>	<u>15,279</u>	<u>10,895</u>	<u>11,545</u>
Total	<u>38,948</u>	<u>43,102</u>	<u>46,066</u>	<u>34,895</u>	<u>48,786</u>
Litres of fuel ethanol Produced	<u>11,930,296</u>	<u>11,572,483</u>	<u>11,634,211</u>	<u>11,781,000</u>	<u>11,232,000</u>
Tonnes of feedstock consumed:					
Barley	60,910	60,657	61,761	65,163	59,246
Forages	31,637	24,863	22,864	22,866	24,563
Ethanol grain feedstocks	<u>34,098</u>	<u>33,394</u>	<u>32,368</u>	<u>32,107</u>	<u>30,336</u>
Total	<u>126,645</u>	<u>118,914</u>	<u>116,993</u>	<u>120,136</u>	<u>124,145</u>