

**Pound-Maker Investments Ltd.**

**2007 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 a 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 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**

<b>Our Vision</b>	Financial and Operating Highlights and Key Ratios	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.	Board Chair’s Message to Shareholders	2
	President’s Message to Shareholders	3
	2007 – The Year in Review	5
	Management’s Responsibility Statement	8
	Auditor’s Report	9
	Financial Statements and Notes	13
	Five Year Review	20

## FINANCIAL AND OPERATING HIGHLIGHTS

Years ended July 31

2007

2006

(All dollar amounts in thousands except per share amounts)

Sales revenue	<b>\$ 42,027</b>	\$ 38,478
Number of cattle marketed		
Company owned cattle	<b>19,475</b>	17,832
Custom fed cattle	<b>17,254</b>	21,116
Total cattle marketings	<b>36,729</b>	38,948
Ethanol sales (millions of litres)	<b>12.138</b>	12.116
Net earnings	<b>\$ 1,462</b>	\$ 3,991
Per share <sup>(1)</sup>	<b>\$ 2.27</b>	\$ 6.21
Shareholders' equity	<b>\$ 13,557</b>	\$ 12,415
Per share <sup>(1)</sup>	<b>\$ 21.08</b>	\$ 19.31
Return on shareholders' equity <sup>(1)</sup>	<b>11.3%</b>	37.2%
Capital expenditures	<b>\$ 1,051</b>	\$ 457
Total assets	<b>\$ 22,322</b>	\$ 24,153
Long term debt <sup>(2)</sup>	<b>\$ 2,356</b>	\$ 5,393
Dividends on Class "A" common shares	<b>\$ 320</b>	\$ 643

## KEY FINANCIAL RATIOS

2007

2006

Current Ratio <sup>(2)</sup>	<b>2.56</b>	2.73
Long-term Debt to Equity <sup>(2)</sup>	<b>0.17</b>	0.43

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes current portion of long-term debt.

## MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors I am pleased to present Pound-Maker's Annual Report to shareholders for the year ended July 31, 2007.

2007 marks the third consecutive fiscal year of continuous profitability, which is remarkable considering the challenges that many agribusinesses have faced during this time period. Our 1990 decision to diversify our original feedlot operations through the synergistic production of ethanol and feed co-products continues to enhance our profitability. Strong global demand for oil has once again resulted in our ethanol division having a very profitable year, despite higher feedstock prices.

The company's financial position has never been stronger. During 2007 we repaid \$3.037 million in term debt. In fiscal 2008 we will retire the debt owing to the Department of Western Economic Diversification which was originally drawn to assist in funding the capital costs of our ethanol facility. This will leave us with only one term loan of approximately \$2.2 million.

I am pleased to announce that the Board of Directors has approved the distribution of a dividend of \$321,500 or \$0.50 per share to all shareholders of record as at October 25<sup>th</sup>, 2007. With this dividend, the company will have paid the cumulative amount of \$1.286 million or \$2.00 per share to shareholders during the past three years.

The Internet based share trading program that the company developed and introduced in 2006 continues to experience substantial activity. Since inception of the program there have been 52 offers to purchase and 46 offers to sell with 15 successful trades involving 25,750 shares. During this time the average share prices has gone from \$4.63 per share to \$9.28 per share. The Board continues to explore other opportunities to improve the value and liquidity of the shareholders investment in the company.

In closing, on behalf of the Board, I would like to commend our management team and all employees for their efforts this past year in making 2007 another successful year.



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

## **MESSAGE TO SHAREHOLDERS**

It is again an honor to report to you on the results of our fiscal year ending July 31, 2007. It has been a year marked by significant swings in market conditions, and highlights that we continue to operate in a cyclical business environment. I am pleased to report that within this environment we have managed to have a profitable financial result.

It has been a challenging year for our cattle feeding operation in many areas. We began the year with plentiful supplies of feed grains and modest prices, but throughout the year we have experienced rapid price increases, and achieved record high feedstock prices by the end of the fiscal year. Conversely, feeder cattle prices were very strong in the first quarter, and have moderated throughout the year in an attempt to reflect the higher feed costs, a stronger Canadian currency and other cost factors. Unfortunately, it is difficult for the cattle market to react quickly enough, and the time differential between purchasing a feeder animal and producing a finished animal lessens the flexibility needed to react quickly to mitigate the cost differentials experienced in a rapidly changing price environment. Finished cattle prices remained consistent through the first half of the fiscal year, but price declines were evident as the cattle market reacted to the higher Canadian dollar, reduced competition from the packing industry, and increased associated costs. As prices for finished cattle are largely influenced by the US cattle price, over the past 12 months exchange rate differences alone resulted in a difference of over \$150 per head marketed.

Another significant challenge for the feedlot division was the less than ideal pen conditions. The abnormally wet conditions throughout the entire year and particularly in the period prior to freeze up in the fall made pen conditions particularly difficult. It also prevented us from performing thorough manure removal. This resulted in lower than anticipated performance, and above normal costs. Subsequently, we have expended significant resources, both human and financial, to reestablish our pen conditions to acceptable levels. We have also purchased additional equipment to deal more proactively when these conditions re-emerge, and feel the investments we have made will allow us to better manage these adverse occurrences in the future.

Ethanol operations have continued to operate very predictably, and we have had adequate demand to sell the entire product produced. Record high oil prices, and consequently higher gasoline prices, have allowed the ethanol division to contribute good profits to the Company. The increased feedstock price experienced throughout the year is reducing profitability. However, we continue to plan for the introduction of debranning equipment as a pre-process for the incoming grain into the process. We believe this will result in both increased production while lowering operating and maintenance costs. It is taking much longer than anticipated to complete the construction as there is a severe shortage of professional contractors to do the required work. We are proceeding however, and anticipate having the equipment operational by the end of this fiscal year. Other improvements are also being evaluated to increase our throughput and efficiencies in the future.

We continue to seek out and invest in positioning our operations to be more efficient and sustainable in the future. We have made significant capital purchases to increase the volume and efficiency of our composting operations. We have also purchased additional land to allow us to have access to a land base for spring manure disposal, and to provide a resource base for grazing cattle or for grain and forage production. We believe this allows the company greater flexibility to manage its operations, provide better returns, and decrease future risks.

## **MESSAGE TO SHAREHOLDERS (Continued)**

Our outlook for next year is guarded. Several events have occurred that have increased the uncertainty in the cattle sector. The higher Canadian dollar has reduced prices, but more importantly, has reduced our competitiveness with our US counterparts, both in the feeding and packing sectors. This has resulted in reduced competition for finished cattle, due to lower slaughter rates. The strong demand for feed grains has increased the cost of finishing as well, but more importantly, the historic relationship between corn prices and barley prices has diverged. This has resulted in barley prices to continue to rise, while corn prices are tracking lower. This results in a negative feed cost differential between Canada and the US feeding sectors.

Lastly, proposed Country of Origin Labeling legislation pending in the US Congress will require Canadian cattle and beef products to be segregated from US supplies right up to the point of sale at retail outlets. This is likely to discourage US competitors from bidding on Canadian finished cattle. This is not because of a difference of quality, or diminished point of sale demand, but rather the segregation costs accruing to US supply chain stakeholders thereby discouraging them from purchasing Canadian product.

In the ethanol division, we continue to forecast strong sales prices and good demand. Recently, we have seen a divergence of the historic pattern of ethanol pricing and oil pricing, as increased ethanol supplies become available in North America, and logistical challenges arise in moving the product to appropriate markets that are located farther away from the production facilities. Additionally, there is a growing concern being expressed by other feed grain users that the ethanol industry is damaging other feed grain dependent industries, and a strong lobby is being developed to attempt to remove any subsidy or support measures for ethanol production. Provincially, there is some opposition to the continuance of the “small scale” provision within the Saskatchewan ethanol mandate legislation by gasoline distributors who are having problems accessing enough small scale supply. We will need to monitor these events closely over the coming months.

The strategies we have employed over the past years have positioned the Company in a very strong financial situation allowing us to continue to operate under these dynamic adjustments to our industry. We continue to seek new opportunities to grow our profitability and to position the Company in the most sustainable situation possible for the future.

I would like to thank our Board of Directors and our dedicated staff for their commitment and input over the past year.

Respectfully submitted,



Brad Wildeman  
President  
Pound-Maker Agventures Ltd.

## 2007 – The Year in Review

### Results of Operations

#### **Sales**

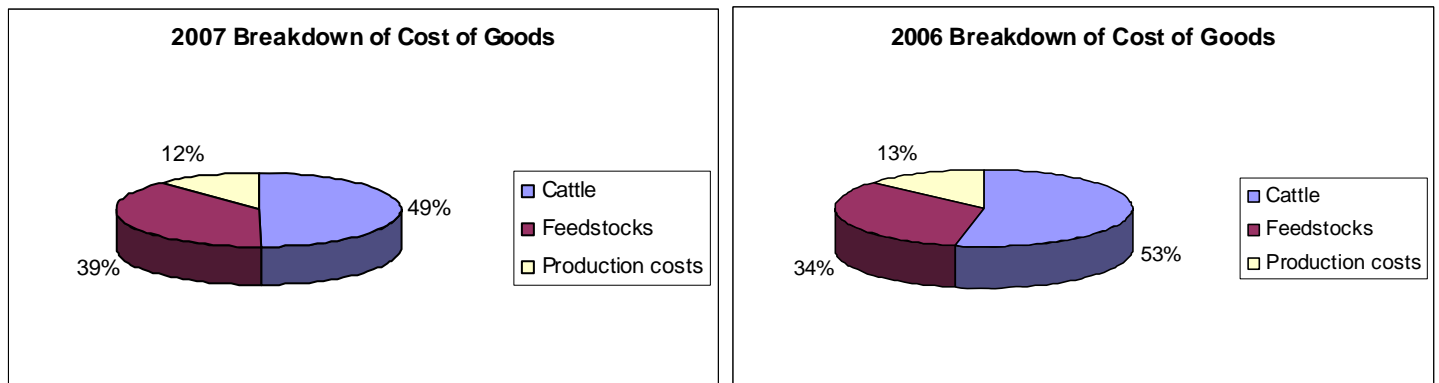
Sales for fiscal 2007 were \$42.0 million, an increase of \$3.5 million (9%) over 2006. The increase in sales is primarily attributable to increased revenues in the company's cattle feeding division from increased volumes of finished cattle marketed during the year and increased custom cattle feeding revenues as compared to fiscal 2006. Revenues for the ethanol division were up slightly over that of fiscal 2006.

#### **Gross Profit Margin**

The gross profit margin for the year was \$6.5 million (18.5%), a decrease of \$2.9 million (13.7%) from that of fiscal 2006. The decline in gross profit is largely attributable to increases in the cost of feed grains that occurred throughout fiscal 2007. Combined feedstock costs increased from \$9.8 million (33.7% of total cost of sales) to \$13.7 million (38.5% of total cost of sales) in fiscal 2007.

#### **Net Earnings**

The company had earnings from operations for the year ending July 31, 2007 of \$2,185,000 (\$1,462,000 after provision of taxes), as compared to earnings from operations in 2006 of \$5,091,000 (\$3,991,000 after provision for taxes). This marks the third consecutive year of the company being profitable from its operations.



Fiscal 2007 operating and administrative expenses were comparable to fiscal 2006.

### Financial Position

The Company reports a strong financial position at the end of the 2007 fiscal year as the Company maintained positive and steady income, a considerable amount of working capital and a small amount of debt yet to be repaid. The principle changes in the Company's financial position during 2007 were the pay-down of long-term debt of over \$3 million and the addition of \$1 million in property, plant and equipment. In total, the company's debt was reduced by 50% over that of the preceding fiscal year and thereby lowered the long-term debt to equity ratio to 0.17. The company's current ratio decreased slightly over that of the preceding year as well to 2.56.

## 2007 – Year in Review (Continued)

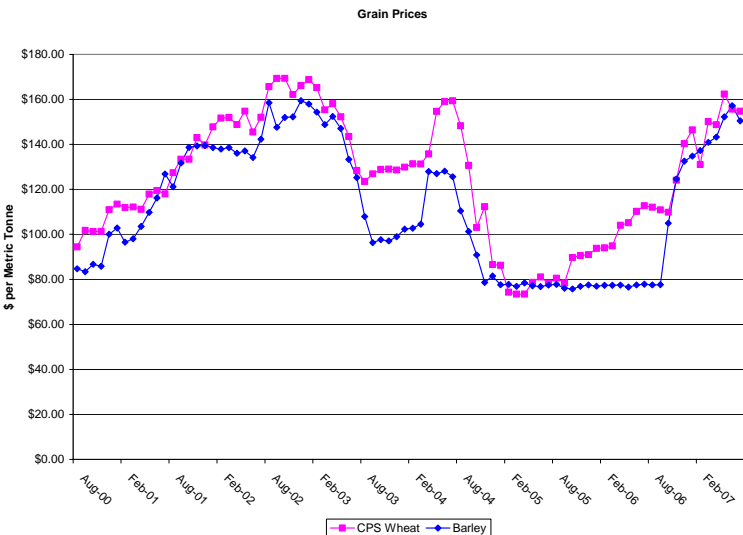
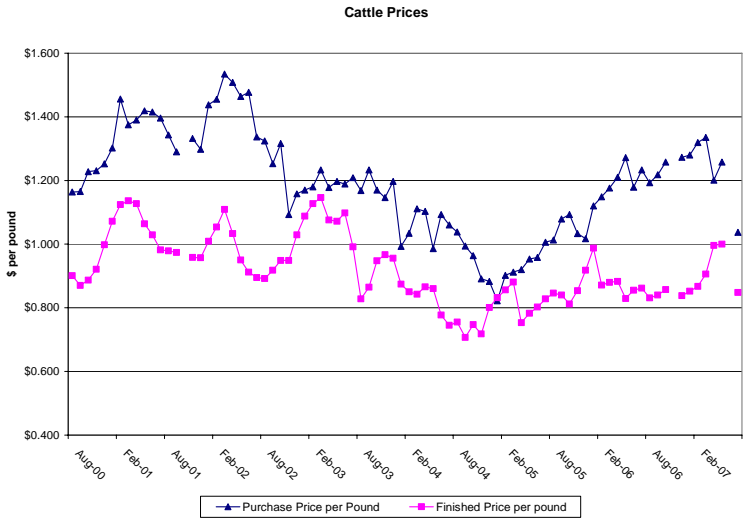
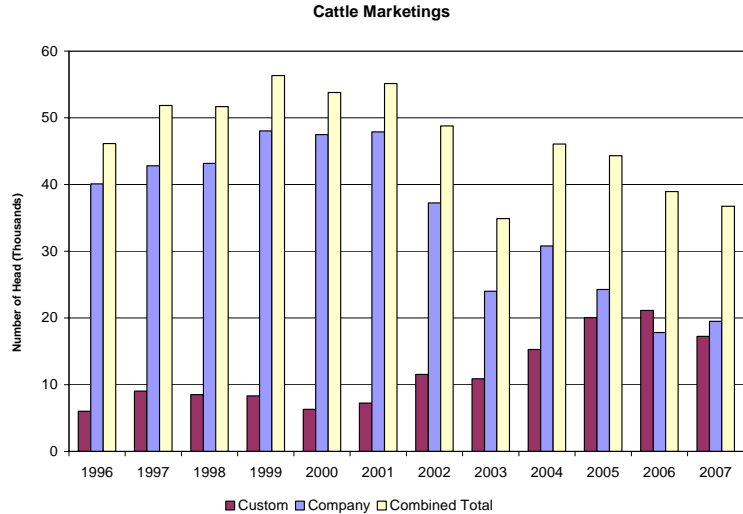
### Cattle Feeding Division

Revenues for the cattle feeding division were \$32.0 million, an increase of \$3.3 million over fiscal 2006. The increase in revenues is the result of an increase of \$2.0 million in revenues from the sales of finished cattle and an increase of \$1.3 million in increased revenues from custom cattle sales attributable to higher selling prices for feed. The company marketed 36,729 head of cattle (19,475 company cattle and 17,254 custom cattle) in fiscal 2007, compared to marketings of 38,948 head (17,832 company cattle and 21,116 custom cattle) in 2006.

Sales revenues for fiscal 2007 include \$500,000 that has been received by the company for the 2003 program year under the Canadian Agricultural Income Stabilization Program Inventory Transition Initiative.

Gross margins on company purchased cattle decreased for fiscal 2007 over those of fiscal 2006, primarily due to increases in the cost of feed grains that resulted in higher costs of gain. The spread between feeder and finished cattle prices remained relatively unchanged in 2007 from that of fiscal 2006.

Feed costs for the cattle feeding division increased by \$2.9 million (42%) over 2006 despite a decline in combined cattle marketings of 5.7% as compared to 2006. Increases in the cost of feed grains combined with extreme wet weather conditions this past year that resulted in unfavorable pen conditions negatively affected the performance of the animals, resulting in a higher feed cost per lb of gain. The following graph represents CPS wheat and barley prices over the last number of years.



## **2007 – The Year in Review (Continued)**

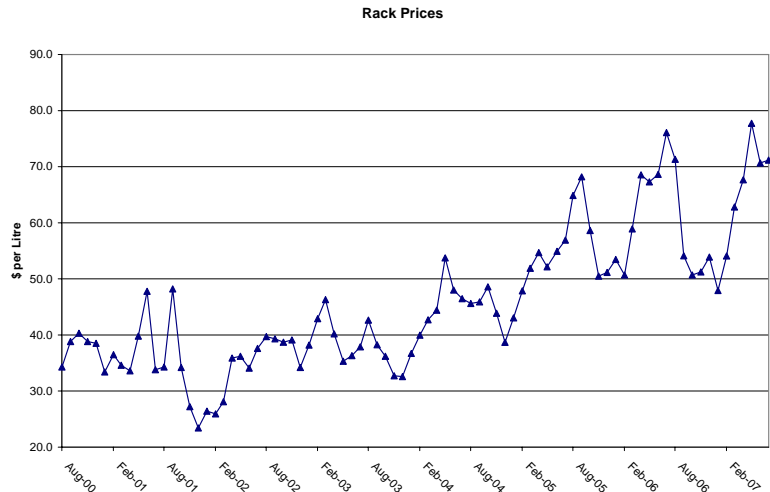
The extreme wet weather conditions experienced this past winter and spring also resulted in increased manure handling and repairs and maintenance costs being incurred in the feedlot division to maintain the pens and feedlot equipment.

The utilization rate of the feedlot increased slightly to 78.0% this year as compared to 77.3% in the previous year.

### **Fuel Ethanol Division**

Fuel ethanol sales revenues and volumes for 2007 were relatively unchanged from that of 2006. Fuel ethanol yields increased over that of the prior year as a result of more high quality and higher starch feedstocks being available for processing. The rack price of gasoline continued to stay at relatively high levels throughout 2007 as depicted in the following graph.

Feedstock costs for the ethanol division increased \$1.5 million in 2007 as compared to 2006 despite production levels not changing significantly year over year. As a result earnings from the ethanol division were down in 2007 as compared to 2006.



### **Future Outlook**

The outlook for the future is mixed. The recent appreciation in the Canadian dollar has resulted in both the Canadian livestock feeding sectors as well as our packing sectors becoming less competitive with US livestock producers and processors. At the same time feed grain prices have increased significantly and there has been a divergence from the historical US corn prices and Canadian feed grain price relationship. This has put Canadian livestock producers at even a more uncompetitive position relative to US producers. As a result, Canadian livestock producers have less demand for finished animals from Canadian processors while they are faced with higher production costs at the same time.

Additionally, the pending Country of Origin Labeling legislation in the US Congress would require Canadian beef and beef products to be segregated from US supplies right up to the point of sale at US retail outlets. This is expected to discourage US processors from purchasing animals grown in Canada due to the additional costs required to segregate Canadian product from US product.

The outlook in the ethanol division is good despite also having to compete with higher feedstock costs. The price of crude oil is expected to remain strong in the next year which is expected to result in continued high gasoline prices.

It is the Company's intention to monitor industry developments and to respond strategically to maximize the profitability of its integrated operations.

## 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, 2007



---

President



---

Chief Financial Officer

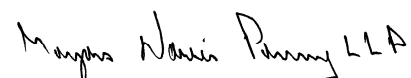
To the Shareholders:  
**Pound-Maker Investments Ltd.**

We have audited the consolidated balance sheet of **Pound-Maker Investments Ltd.** as at July 31, 2007 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, 2007 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, 2007

  
**Chartered Accountants**

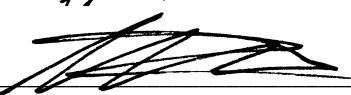
**Pound-Maker Investments Ltd.**  
**Consolidated Balance Sheet**

*For the year ended July 31, 2007*

	2007	2006
<b>Assets</b>		
<b>Current</b>		
Cash	557,000	610,000
Accounts receivable	3,250,000	3,784,000
Corporate taxes receivable	248,000	-
Prepaid expenses	83,000	107,000
Inventory (Note 3)	11,766,000	13,301,000
	15,904,000	17,802,000
<b>Property, Plant and Equipment</b> (Note 4)	6,339,000	6,253,000
<b>Start-Up and Organizational Costs</b> (Note 5)	79,000	98,000
	22,322,000	24,153,000
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	2,531,000	2,143,000
Corporate taxes payable	-	467,000
Current portion of long-term debt (Note 7)	399,000	891,000
Future income taxes (Note 11)	3,281,000	3,013,000
	6,211,000	6,514,000
<b>Long-Term Debt</b> (Note 7)	1,957,000	4,502,000
<b>Future Income Taxes</b> (Note 11)	597,000	722,000
	8,765,000	11,738,000
<b>Commitments</b> (Note 15)		
<b>Shareholders' Equity</b>		
Share capital (Note 8)	1,443,000	1,443,000
Contributed surplus (Note 9)	1,055,000	1,055,000
Retained earnings	11,059,000	9,917,000
	13,557,000	12,415,000
	22,322,000	24,153,000

ON BEHALF OF THE BOARD

 Director

 Director

**Pound-Maker Investments Ltd.**  
**Consolidated Statement of Earnings and Retained Earnings**  
*For the year ended July 31, 2007*

	<i>2007</i>	<i>2006</i>
<b>Sales</b>	<b>42,027,000</b>	38,478,000
<b>Cost of goods sold (Note 10)</b>	<b>35,481,000</b>	29,108,000
<b>Gross profit</b>	<b>6,546,000</b>	9,370,000
<b>Expenses</b>		
Operating and administrative	3,259,000	3,155,000
Depreciation and amortization	961,000	965,000
Interest on long-term debt	141,000	159,000
	<b>4,361,000</b>	4,279,000
<b>Earnings from operations</b>	<b>2,185,000</b>	5,091,000
<b>Provision for corporate taxes (Note 11)</b>		
Future	144,000	51,000
Current	579,000	1,049,000
	<b>723,000</b>	1,100,000
<b>Earnings for the year</b>	<b>1,462,000</b>	3,991,000
<b>Retained earnings, beginning of year</b>	<b>9,917,000</b>	6,569,000
	<b>11,379,000</b>	10,560,000
<b>Dividends</b>	<b>(320,000)</b>	(643,000)
<b>Retained earnings, end of year</b>	<b>11,059,000</b>	9,917,000
<b>Earnings per share (Note 12)</b>		
Basic and diluted	<b>2.27</b>	6.21

**Pound-Maker Investments Ltd.**  
**Consolidated Statement of Cash Flows**

*For the year ended July 31, 2007*

	<u>2007</u>	<u>2006</u>
<b>Cash provided by (used in) the following activities</b>		
<b>Operating</b>		
Net earnings for the year	1,462,000	3,991,000
Charges to operations not affecting cash		
Future income taxes	144,000	51,000
Depreciation and amortization	961,000	965,000
Gain on sale of property, plant and equipment	(25,000)	(5,000)
	<b>2,542,000</b>	<b>5,002,000</b>
Change in non-cash working capital balances related to operations		
Accounts receivable	534,000	(779,000)
Corporate taxes payable	(715,000)	(111,000)
Prepaid expenses	24,000	60,000
Inventory	1,535,000	(2,676,000)
Accounts payable	388,000	468,000
	<b>4,308,000</b>	<b>1,964,000</b>
<b>Investing</b>		
Purchase of property, plant and equipment	(1,051,000)	(457,000)
Proceeds from sale of property, plant and equipment	47,000	5,000
	<b>(1,004,000)</b>	<b>(452,000)</b>
<b>Financing</b>		
Dividend paid	(320,000)	(643,000)
Repayment of long-term debt	(3,037,000)	(881,000)
	<b>(3,357,000)</b>	<b>(1,524,000)</b>
<b>Net decrease in cash resources</b>	<b>(53,000)</b>	<b>(12,000)</b>
<b>Cash resources, beginning of year</b>	<b>610,000</b>	<b>622,000</b>
<b>Cash resources, end of year</b>	<b>557,000</b>	<b>610,000</b>
<b>Supplementary Cash Flow Information</b>		
Interest paid	228,000	293,000
Corporate tax paid	1,290,000	1,156,000

# **Pound-Maker Investments Ltd.**

## **Notes to the Consolidated Financial Statements**

*For the year ended July 31, 2007*

---

### **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.

**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, 2007 fiscal year \$500,000 (July 31, 2006 \$491,000) 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.

**Commodity Hedging**

The Company enters into various contracts to manage its exposure to changes in commodity prices for known and highly likely purchase commitments. Contract gains and losses are recognized in the financial statements when the related transactions occur.

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

*For the year ended July 31, 2007*

**2. Significant Accounting Policies (continued)**

**Recent Accounting Pronouncement**

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 interim and annual financial statements with fiscal years beginning on or after October 1, 2006. 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.

In December 2006, the Canadian Institute of Chartered Accountants issued Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation* to replace Section 3861 *Financial Instruments – Disclosure and Presentation*. These new Sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007, but may be adopted in place of Section 3861, before that date.

The Company expects to apply these new recommendations, including Sections 3862 and 3863, for its financial statements dated

July 31, 2009. 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.

**3. Inventory**

	2007	2006
Cattle	9,482,000	11,675,000
Feedstocks	1,238,000	865,000
Ethanol	1,016,000	729,000
Supplies	30,000	32,000
	11,766,000	13,301,000

**4. Property, Plant And Equipment**

				2007	2006
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	-	788,000	-	788,000	378,000
Office, feedlot and feedlot equipment	4% - 10%	4,983,000	3,075,000	1,908,000	1,978,000
Feedmill	6.67%	1,062,000	919,000	143,000	187,000
Ethanol plant and processing equipment	5% - 10%	12,837,000	10,348,000	2,489,000	2,971,000
Automotive equipment	20%	2,376,000	1,493,000	883,000	739,000
Assets under construction	-	128,000	-	128,000	-
		22,174,000	15,835,000	6,339,000	6,253,000

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

*For the year ended July 31, 2007*

**5. Start-Up and Organizational Costs**

	2007	2006
Start-up costs	243,000	243,000
Organizational costs	138,000	138,000
	381,000	381,000
Accumulated amortization	302,000	283,000
	79,000	98,000
Net book value	79,000	98,000

**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, 2007. 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, 2007 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.

**7. Long-term Debt**

	2007	2006
Loan repayable in annual instalments of \$10,000 including interest at 3.5%. The loan matures January 15, 2017.	85,000	-
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.	86,000	430,000
Farm Credit Canada loan #1 - repayable in monthly instalments of \$34,000 including interest at FCC's closed variable mortgage rate less 0.6%.	-	2,486,000
Farm Credit Canada loan #2 - repayable in monthly instalments of \$34,000 including interest at 5.9%. (5.9% at July 31, 2006) The loan matures August 1, 2013.	2,185,000	2,477,000
	2,356,000	5,393,000
Less current portion	399,000	891,000
	1,957,000	4,502,000

The Farm Credit Canada ("FCC") loan is 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.

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2007

---

**7. Long-term Debt (continued)**

The terms of the FCC loans require that certain measurable financial covenants be met. At July 31, 2007 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:

2008	\$ 399,000
2009	333,000
2010	353,000
2011	374,000
2012	396,000

**8. Share Capital**

	2007	2006
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, 2006 and 2007)	<b>1,443,000</b>	1,443,000
	<b>1,443,000</b>	1,443,000

**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**

	2007	2006
Cattle	<b>17,607,000</b>	15,344,000
Feedstocks	<b>13,668,000</b>	9,810,000
Production costs	<b>4,094,000</b>	3,824,000
Interest	<b>112,000</b>	130,000
	<b>35,481,000</b>	29,108,000

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2007

**11. Income Taxes**

The components of future income tax liabilities, valued at the Company's marginal income tax rate of 29.7% (2006-29.7%), are as follows:

	2007	2006
Timing differences related to cash reporting for income taxes (current)	<b>3,281,000</b>	3,013,000
Timing differences related to property, plant and equipment (long-term)	<b>597,000</b>	722,000
Future income tax liabilities	<b>3,878,000</b>	3,735,000

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

	2007	2006
Earnings before income taxes for the year	<b>2,185,000</b>	5,089,000
Expected tax expense at 35.5% (2006 – 39.1%)	<b>776,000</b>	1,990,000
Increase (decrease) in expense due to:		
Manufacturing and processing credit	<b>(33,000)</b>	(268,000)
Rate changes	-	(606,000)
Other	<b>(20,000)</b>	(16,000)
Income tax expense	<b>723,000</b>	1,100,000

**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 (2006 – 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. 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.

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2007

**15. 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.

The Company has entered into a contract in the amount of \$300,000 US for the supply and installation of debranning equipment.

The Company has also entered into commitments for future commodity purchases as described below in Note 16.

**16. 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 68% (2006 - 42%) of outstanding accounts receivable. Receivables related to the oil industry represent approximately 28% (2006 - 52%) 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.

*Commodity Price Risk*

The Company is exposed to price risk on future feedstock purchases. In order to manage these commodity price risks the Company has entered into commitments for future commodity purchases. As at July 31, 2007 the Company has commitments for 13,060 tonnes of feedstock purchases for a total of \$1,863,800. These commitments range from September 2007 to March 2008.

*Fair Value Disclosure*

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Receivables	3,250,000	3,250,000	3,784,000	3,784,000
Accounts payable	2,380,000	2,380,000	2,143,000	2,143,000
Long-term debt	2,356,000	2,356,000	5,393,000	5,376,000

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)

	2007	2006	2005	2004	2003
<b>Financial</b>					
Sales revenue	\$42,027,000	\$38,478,000	\$40,498,000	\$47,859,000	\$45,048,000
Net earnings (loss)	\$1,462,000	\$3,991,000	\$3,072,000	(\$463,000)	(\$340,000)
Net earnings (loss) per share	\$2.27	\$6.21	\$4.78	(\$0.72)	(\$0.53)
Long-term debt	\$2,356,000	\$5,393,000	\$6,274,000	\$7,096,000	\$7,457,000
Net working capital (excluding future income taxes)	\$12,974,000	\$14,301,000	\$11,275,000	\$7,767,000	\$8,014,000
Total assets	\$22,322,000	\$24,153,000	\$21,278,000	\$20,885,000	\$29,517,000
Shareholder's equity End of year	\$13,557,000	\$12,415,000	\$9,067,000	\$5,995,000	\$6,458,000
Shareholder's equity per share End of year	\$21.08	\$19.31	\$14.10	\$9.32	\$10.04
<b>Operational</b>					
Number of cattle marketed					
Company	19,475	17,832	24,261	30,787	24,000
Custom	<u>17,254</u>	<u>21,116</u>	<u>18,841</u>	<u>15,279</u>	<u>10,895</u>
Total	<u>36,729</u>	<u>38,948</u>	<u>43,102</u>	<u>46,066</u>	<u>34,895</u>
Litres of fuel ethanol Produced	<u>12,359,892</u>	<u>11,930,296</u>	<u>11,572,483</u>	<u>11,634,211</u>	<u>11,781,000</u>
Tonnes of feedstock consumed:					
Barley	65,480	60,910	60,657	61,761	65,163
Forages	26,218	31,637	24,863	22,864	22,866
Ethanol grain feedstocks	<u>33,754</u>	<u>34,098</u>	<u>33,394</u>	<u>32,368</u>	<u>32,107</u>
Total	<u>125,452</u>	<u>126,645</u>	<u>118,914</u>	<u>116,993</u>	<u>120,136</u>