

Pound-Maker Investments Ltd.

2003 Annual Report

*Recipient of the
2002 Canadian Cattlemen's Association
Environmental Stewardship Award*

Corporate Profile

Pound-Maker Investments Ltd. is a privately held Canadian company with over 200 shareholders. The company was the founding shareholder of Pound-Maker Agventures Ltd. Today, Pound-Maker Investments Ltd.'s primary business activity is its investment in Pound-Maker Agventures Ltd.

As at July 31, 2000, Pound-Maker Investments Ltd. owned 56% of the outstanding common voting shares of Pound-Maker Agventures Ltd. On December 5, 2000 Pound-Maker Investments Ltd. purchased an additional 22,000 common voting shares of its subsidiary from a minority interest shareholder, thus increasing its ownership interest in the total share capital of its subsidiary from 56% to 78%. On January 4, 2002, 101025221 Saskatchewan Ltd., a wholly owned subsidiary of Pound-Maker Investments Ltd., purchased 22,000 common voting shares of Pound-Maker Agventures Ltd. from the remaining minority interest shareholder, thus increasing the consolidated ownership interest of Pound-Maker Investments Ltd. in the share capital of Pound-Maker Agventures Ltd. from 78% to 100%.

Pound-Maker Agventures Ltd. business operations 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 30 thousand 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 of primarily 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 distillers 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 only fuel ethanol manufacturer.

Our Vision

Responsible and profitable investments enhancing local agricultural and human resources in an ethical manner for the benefit of the stakeholders and community.

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FINANCIAL AND OPERATING HIGHLIGHTS

Years ended July 31

2003

2002

(in thousands except per share
and percentage amounts)

Net earnings (loss)	\$ (340)	\$ (2,111)
Per share	\$ (0.53)	\$ (3.28)
Long-term debt-to-equity ratio	1.10	1.13
Shareholders' equity (1)	\$ 6,458	\$ 6,798
Per share (1)	\$ 10.04	\$ 10.57
Return on shareholders' equity (1)	(5.1)%	(27.5)%
Capital expenditures	\$ 299	\$ 407
Sales revenue	\$ 45,048	\$ 56,621
Number of cattle marketed (2)	35	49
Litres of ethanol	11,611	11,141
Total assets	\$ 29,517	\$ 26,927

(1) excludes subordinated shareholders' loans

(2) includes custom fed cattle

MESSAGE TO SHAREHOLDERS

On behalf of the company's Board of Directors I am pleased to present to you Pound-Maker's Annual Report for the fiscal year ended July 31, 2003.

Operations for the past fiscal year have resulted in a loss of \$340 thousand. The financial performance of the company was initially anticipated to be much worse in light of the crisis that faced the Canadian cattle industry, namely, the discovery of the lone case of Bovine Spongiform Encephalopathy ("BSE") in a cow in Alberta in May of this past year.

The post May 20th period has, for our management team, been a very trying and difficult time. For a significant time, the company was unable to market any finished cattle and when markets did become available, finished cattle traded for as low as \$30/cwt. Our company's President, as Chairman of the Foreign Trade Committee for the Canadian Cattlemen's Association, has played a key role to regain access to the U.S. market for beef exports as well as to lobby and assist our Governments in developing and implementing effective compensation programs to mitigate the enormous financial losses the industry has faced as a result of this crisis. Our management team has once again faced operational issues and challenges that had not been faced before.

Ethanol division operations have been moderately profitable in this fiscal year due to higher gasoline prices and increased ethanol sales in Saskatchewan resulting from the provincial government's implementation of an ethanol incentive program. Poor feedstock quality and higher feedstock prices resulting from the drought, frost and unfavorable harvest conditions of 2002 negatively impacted the performance of the ethanol division.

While at this time, we do not yet have access to the U.S. market for the export of live finished cattle, we believe that we have successfully weathered the storm that was thrust upon us and that we have fared quite well despite the challenges and difficulties we faced during this time. Clearly, our people and our management team played a key role in securing this positive outcome for the company. On behalf of the Board, I would like to commend the management and staff of the company for staying the course and for a job well done, during a time of unprecedented uncertainty.



Mylles Wildeman
Board Chair
Pound-Maker Agventures Ltd.
Pound-Maker Investments Ltd.

MESSAGE TO SHAREHOLDERS

I am pleased to report to you to on the operations of Pound-Maker Agventures Ltd. for the past year.

It would obviously be an understatement to state that the past year was one of tumultuous uncertainty and change for our industry and our cattle feeding enterprise. With the discovery of a single case of BSE in Alberta on May 20th, though no products from this animal ever entered the food chain, the rules and playing field that all cattlemen knew and understood were forever changed. Never in history had a country so dependent on international trade experienced a total shutdown of their international trade, which comprises over 60% of domestic production. Based on the past negative impacts experienced by other countries that had experienced a BSE outbreak, there was legitimate cause for panic within the industry, and stakeholders initially acted accordingly with a complete shutdown of the marketplace. The timing of the BSE discovery, while probably the best time for the cow-calf sector, occurred at the worst time for the feeding sector. The 2nd quarter of the calendar year comprises the greatest volume of sales of finished company cattle, as well as the vast majority of the custom fed cattle at Pound-Maker. Fed cattle prices fell from the \$108/cwt to a low of \$30/cwt. In addition, slaughter volumes decreased significantly, and a backlog of finished cattle quickly accumulated. This has only recently been reversed, resulting in prices in the \$85-90/cwt. range. The crisis caused by this BSE incident has been described as “the single greatest crisis to ever occur in Canadian agriculture.”

I believe the actions and responses of the entire cattle industry, as well as the timely involvement of the Canadian Cattlemen’s Association, have greatly reduced the harmful effects that may have occurred. I was very honored to have been asked to serve on the BSE crisis management committees of the Canadian Cattlemen’s Association, the Federal Roundtable on BSE issues management, and the Saskatchewan BSE Advisory Committee. The collaboration that was demonstrated by all affected stakeholders, including both Federal and Provincial governments, was unprecedented, and although the costs of the collapse of cattle prices has been severe; the industry has been protected considerably. Our financial results, although disappointing, have been assisted significantly by the BSE Fed Cattle Deficiency programs that were, and are in place. I do believe however, that the actions taken by the management team reduced, to the greatest degree possible, the impacts of the price collapse. Additionally, the increased custom feeding activity experienced this year lessened the financial consequences, but many of these custom feeders experienced very large losses as well, however, which may have implications to the volumes of custom cattle fed at our facilities in the upcoming year.

In other countries unaffected by BSE, cattle prices are at record levels, and cattle feeders are experiencing record profits. Based on our analysis, if BSE had not occurred, Pound-Maker was projecting a very profitable fiscal result for this year, and it is disappointing to have lost this opportunity due to issues outside of our control.

The financial results of our ethanol operations have improved significantly over the past year, as a result of the strong price for ethanol. Earnings from this division have been helpful in lessening the financial consequences of BSE. Sales of ethanol have increased, particularly in the consistency of shipments, and the outlook for the coming year continues to be positive.

MESSAGE TO SHAREHOLDERS (Continued)

Over the past days and weeks, there has been several positive signs that the market can, and is, returning to a more predictable and normal basis. The posting of the rules for importing live cattle, carcass beef, and an expanded list of beef products into the United States, when fully enacted, will significantly improve Canadian cattle prices. Recommended changes, forthcoming from the International Animal Health Body (OIE), to the international guidelines that countries should follow in re-opening borders to countries that have an isolated incident of BSE, while having a comprehensive prevention protocol in place, will likely soon be accepted by 146 countries. This should pressure the international markets to re-open in accordance with these guidelines, and Canada would benefit significantly from these actions. There will obviously, be other unplanned issues to be resolved, but certainly the future looks much more hopeful. The continued commitment of the key stakeholders, both industry and government, will be important in managing these issues in the best interest of our industry.

I do believe that we have placed Pound-Maker in the best possible position to endure and adapt to both what we have already experienced, as well as what we may face in the future. Our decision last year to re-profile our long and short term debt obligations has strengthened our working capital position, and has allowed us to continue our operations unimpeded by the financial consequences. It also will allow management the ability to respond to future opportunities as presented.

Despite the uncertainty we still face as we deal with future challenges and opportunities, we continue to feel confident about our competitive position in the North American marketplace. Our confidence, while shaken, remains strong, and we look forward to the future with confidence.

Respectfully submitted,



Brad Wildeman
President

Pound-Maker Agventures Ltd.
Pound-Maker Investments Ltd.

2003 – THE YEAR IN REVIEW

Results of Operations

Sales

Sales for the year ended July 31, 2003 were \$45 million, a decrease of \$11.6 million (20.4%) over 2002. The decline in 2003 sales was a direct result of the disruption that occurred in the markets for Canadian finished beef due to the case of BSE that was discovered in May 2003. The months of May through July are typically high volume months for the marketing of finished cattle by the company. For fiscal 2003 the company marketed a total of 24,000 head, which represents less than 65% of its finished cattle marketings for the previous year and is the lowest level of annual finished cattle marketings since 1992 when the feedlot had a standing capacity of 18,000 head as compared to 30,000 today.

Net Earnings

Corporate net earnings for the year were a loss of \$0.3 million as compared to a net loss of \$2.1 million in fiscal 2002. Cashflows from operations were \$0.5 million as compared to a net cash outflow of \$2.5 million in the preceding year.

Financial Position

The financial position of the company is substantially unchanged from that of the preceding year. The inability of the company to market finished cattle as it normally would in the last quarter of the year combined with the requirement for the company to apply for financial support to the programs that were put in place to compensate producers for the impact that the discovery of BSE had on finished cattle prices, resulted in increased working capital requirements for both inventories and accounts receivable. This resulted in the company's debt to equity ratio to increase over that of the preceding year and similarly for the company's current ratio to decline over that of the preceding year.

The company's restructuring, during fiscal 2002, of some of its short-term and long-term financing facilities has positioned the company to fund its ongoing operations during the last quarter of fiscal 2003 and first quarter of fiscal 2004, despite the negative impact on operating cashflows that were experienced as a result of the impact of BSE had on the prices and marketability of finished cattle during this time.

Key Financial Ratios

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current (*)	1.61	1.94	1.81
Long-term debt-to-equity (*)	1.10	1.13	0.59
Debt to equity(*)	2.94	2.30	2.22

(*) Excluding Future Income Taxes

2003 – THE YEAR IN REVIEW (Continued)

Cattle Feeding Division

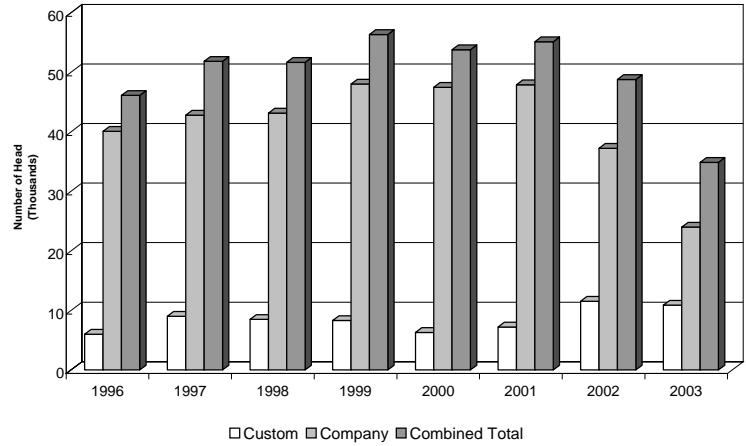
34,895 head of cattle (24,000 company cattle and 10,895 head of custom cattle) were marketed during the year as compared to fiscal 2002 marketings of 48,746 head (37,241 company cattle and 11,545 head of custom cattle, representing an overall decline of 28.4% in finished cattle marketed during the year as compared to the preceding year. This decline is significant; particularly in light of the fact that fiscal 2002 finished cattle marketings were down 11.6% from fiscal 2001 marketings. Similar to the decline in finished cattle marketings, the overall net pounds of beef produced and marketed during fiscal 2003 was 26.6% less than that of fiscal 2002. The decline in 2003 marketings of finished beef is primarily attributable to the inability of the company to market any significant volumes of finished cattle during the last quarter of fiscal 2003. Despite the lower level of finished cattle marketings in 2003, the utilization of the feedlot division's available feeding capacity for both fiscal 2003 and 2002 was approximately 82.2%.

82.9 % of finished cattle were marketed to Canadian packers during the year as compared to 83.1% in the preceding year.

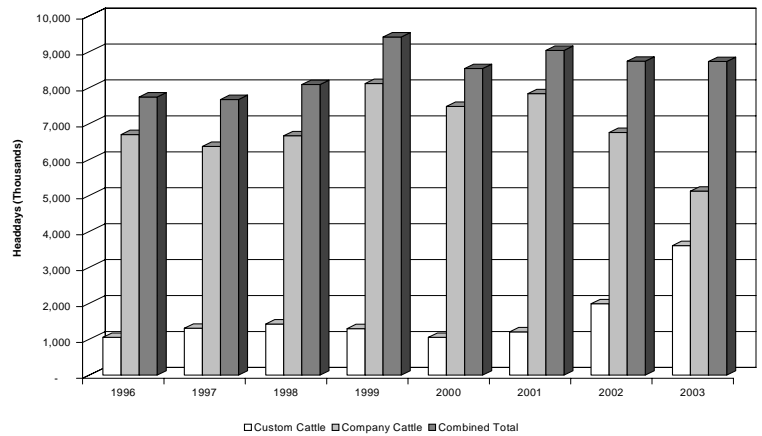
Due to the shortage of feed grains in fiscal 2003, feed barley prices were significantly higher throughout the year as compared to 2002. On average the price of feed barley was approximately \$15 per tonne (11%) more in 2003 than that of the preceding year, and at the same time the overall quality of the feed was inferior to that of the previous year. Feeder cattle prices declined during the year, averaging approximately \$118 per cwt (basis a 750 lb. feeder) as compared to approximately \$128 per cwt in 2002, representing a decrease of \$10 per cwt (7.8%). Fed cattle prices averaged approximately \$2 per cwt higher during the first three quarters of fiscal 2003 as compared to the same period in 2002.

2003 – THE YEAR IN REVIEW

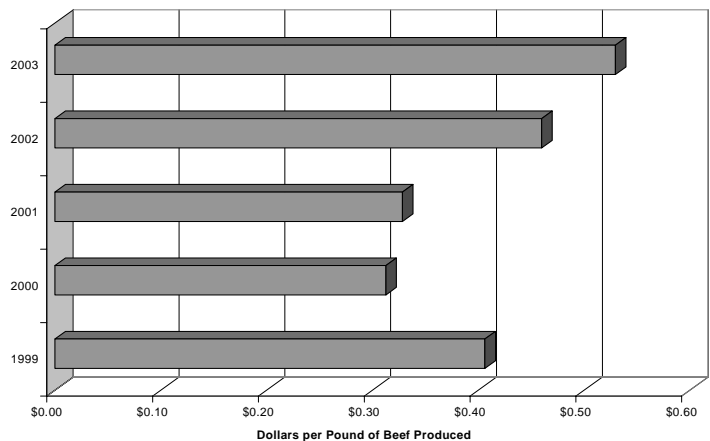
Cattle Marketings



Annual Feedlot Utilization

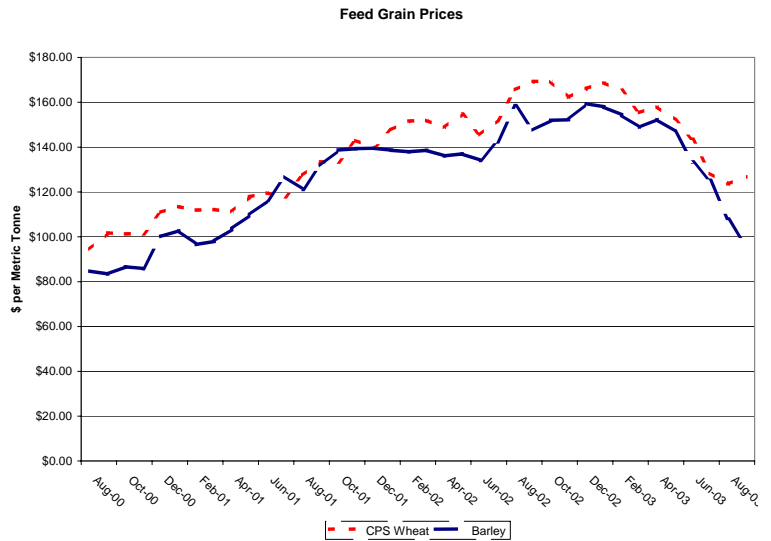


Feed Costs



(Continued)

Prior to the impact that the discovery of BSE had on the Canadian cattle markets, the economics of finishing cattle for market had improved significantly throughout fiscal 2003 as compared to that of 2002. The creation of Government funded compensation programs specific to compensating producers for some of the financial losses suffered as a result of the impact that BSE has had on finished cattle prices helped to offset a substantial portion of the losses on the sale of finished cattle that would have been incurred otherwise.



Fuel Ethanol Division

Fuel ethanol sales for fiscal 2003 totaled 11.6 million litres, an increase of 0.5 million litres over fiscal 2002 sales volumes. Similar to the experience of the feedlot division, the shortage in the availability and quality of feedstocks resulted in the average feedstock cost to increase by approximately \$19 per tonne (13%) over that of the previous year. Fuel ethanol prices were stronger during fiscal 2003 primarily as a result of higher prices of unleaded gasoline as compared to fiscal 2002. Overall the profit margins earned by the ethanol division during the year were higher than those realized during the preceding year.

FUTURE OUTLOOK

Despite the dramatic impact that the discovery of a BSE case has had on Canadian cattle prices and access to critical export markets, the company is optimistic that fiscal 2004 will be a good year. Substantial increases in the finished beef prices have been realized during the post BSE discovery period, largely due to the opening of the U.S. border to beef boneless muscle cuts. The company is optimistic that additional price increases will be realized for finished beef once the U.S. market is open to live cattle from Canada. The opening of the U.S. border to live cattle from Canada is anticipated to occur in the second quarter of 2004.

The availability of high quality feed grains for the feedlot division and grain feedstocks for the ethanol division, at lower cost levels than those of fiscal 2002 or 2003, is expected to have a positive impact on the profit margins of both the feedlot and ethanol divisions.

Overall, fiscal corporate earnings are expected to be positive as the earnings of both the feedlot and ethanol division are expected to return to more traditional levels.

GLOSSARY OF FINANCIAL RATIOS

Current ratio

Current assets ÷ current liabilities (excluding current future income taxes)

Long-Term Debt-to-Equity ratio

Total long-term debt (excluding future income taxes) ÷ shareholders' equity

Debt-to-Equity ratio

Total debt ÷ shareholders' equity

Management's Responsibility


To the Shareholders
Pound-Maker Investments Ltd.

Management has responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

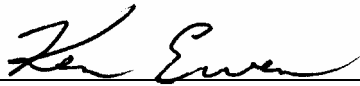
In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial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



President



Controller

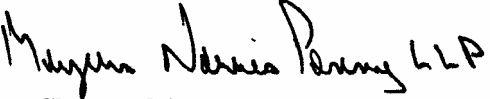
To the Shareholders:
Pound-Maker Investments Ltd.

We have audited the consolidated balance sheet of **Pound-Maker Investments Ltd.** as at July 31, 2003 and the consolidated statements of earnings (loss) 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, 2003 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
November 5, 2003


Chartered Accountants

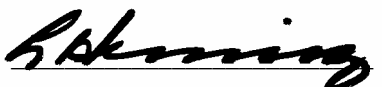
Pound-Maker Investments Ltd.
Consolidated Balance Sheet

For the year ended July 31, 2003

	<u>2003</u>	<u>2002</u>
Assets		
Current		
Accounts receivable	4,787,000	3,510,000
Corporate taxes receivable	47,000	77,000
Prepaid expenses	55,000	48,000
Inventory (Note 3)	16,296,000	14,301,000
	<u>21,185,000</u>	<u>17,936,000</u>
Property, Plant and Equipment (Note 4)	8,178,000	8,818,000
Start-Up and Organizational Costs (Note 5)	154,000	173,000
	<u>29,517,000</u>	<u>26,927,000</u>
Liabilities		
Current		
Bank indebtedness (Note 6)	10,119,000	6,351,000
Accounts payable and accrued liabilities	2,333,000	2,105,000
Current portion of long-term debt (Note 7)	719,000	799,000
	<u>13,171,000</u>	<u>9,255,000</u>
Future income taxes	1,879,000	1,889,000
	<u>15,050,000</u>	<u>11,144,000</u>
Long-Term Debt (Note 7)	6,738,000	7,431,000
Future Income Taxes	959,000	1,092,000
	<u>22,747,000</u>	<u>19,667,000</u>
Shareholders' Equity		
Subordinated shareholders' loans (Note 8)	312,000	462,000
Share capital (Note 9)	1,443,000	1,443,000
Contributed surplus (Note 10)	1,055,000	1,055,000
Retained earnings	3,960,000	4,300,000
	<u>6,770,000</u>	<u>7,260,000</u>
	<u>29,517,000</u>	<u>26,927,000</u>

ON BEHALF OF THE BOARD

 Director

 Director

Pound-Maker Investments Ltd.
Consolidated Statement of Earnings (Loss) and Retained Earnings

For the year ended July 31, 2003

	2003	2002
Sales (Note 2)	45,048,000	56,621,000
Cost of goods sold (Note 11)	42,060,000	56,922,000
Gross profit (loss)	2,988,000	(301,000)
Expenses		
Operating and administrative	2,218,000	1,899,000
Depreciation and amortization	958,000	953,000
Interest on long-term debt	208,000	209,000
	3,384,000	3,061,000
Earnings (loss) from operations	(396,000)	(3,362,000)
Provision for (recovery of) corporate taxes		
Future	(144,000)	(1,175,000)
Capital	88,000	94,000
	(56,000)	(1,081,000)
Earnings (loss) before minority interest	(340,000)	(2,281,000)
Minority interest in net earnings (loss) of Pound-Maker Agventures Ltd. (Note 14)	-	(170,000)
Net earnings (loss) for the year	(340,000)	(2,111,000)
Retained earnings, beginning of year	4,300,000	6,411,000
Retained earnings, end of year	3,960,000	4,300,000

Pound-Maker Investments Ltd.
Consolidated Statement of Cash Flows

For the year ended July 31, 2003

	2003	2002
Cash provided by (used in) the following activities		
Operating		
Earnings (loss) for the year	(340,000)	(2,111,000)
Charges to operations not affecting cash		
Future income taxes	(144,000)	(1,175,000)
Depreciation and amortization	958,000	953,000
Loss (gain) on sale of property, plant and equipment	-	(4,000)
Minority interest	-	(170,000)
	474,000	(2,507,000)
Change in non-cash working capital balances related to operations		
Accounts receivable	(1,277,000)	(532,000)
Corporate taxes receivable	30,000	(57,000)
Prepaid expenses	(7,000)	(11,000)
Inventory	(1,995,000)	6,216,000
Accounts payable	229,000	112,000
	(2,546,000)	3,221,000
Investing		
Capital asset purchases	(299,000)	(407,000)
Proceeds from sale of property, plant and equipment	-	105,000
Purchase of minority interest in Pound-Maker Agventures Ltd.	-	(1,978,000)
	(299,000)	(2,280,000)
Financing		
Increase (decrease) in bank indebtedness	3,768,000	(3,858,000)
Loan advance	-	3,735,000
Loan repayments	(773,000)	(818,000)
Repayment of subordinated shareholders' loans	(150,000)	-
	2,845,000	(941,000)
Net increase (decrease) in cash resources	-	-
Cash resources, beginning of year	-	-
Cash resources, end of year	-	-
Additional disclosure required:		
Interest paid	692,000	822,000
Corporate tax paid	80,000	119,000

Pound-Maker Investments Ltd.

Notes to the Consolidated Financial Statements

For the year ended July 31, 2003

1. Nature of Business

Pound-Maker Investments Ltd. 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. 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

The company has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of inter-company transactions and balances. The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Pound-Maker Agventures Ltd. and 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 amortization. Expenditures for maintenance and repairs are charged against operations as incurred.

Amortization 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, 2003

2. Significant Accounting Policies (continued)

Future Income Taxes

The company follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized.

Future income taxes reflected as current liabilities on the balance sheet (2003 - \$1,879,000; 2002 - \$1,889,000) relate to timing differences resulting from the company using the accrual basis of accounting for financial statement purposes and the cash basis of accounting for tax purposes.

Future income taxes reflected as long-term liabilities on the balance sheet (2003 - \$959,000; 2002 - \$1,092,000) relate primarily to the different rates at which property, plant and equipment and start-up costs are amortized for financial statement and tax purposes.

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.

Revenue Recognition – Government Assistance

Government assistance to supplement lost revenues due to adverse cattle market conditions is recognized as the affected cattle are sold. Sales for the current year include \$1,528,000 of assistance under the Canada – Saskatchewan Bovine Spongiform Encephalopathy Recovery Programs.

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.

3. Inventory

	2003	2002
Cattle	13,951,000	12,816,000
Feedstocks	1,611,000	881,000
Ethanol	323,000	268,000
Supplies	411,000	336,000
	16,296,000	14,301,000

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

For the year ended July 31, 2003

4. Property, Plant And Equipment

			2003	2002
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value
			Net Book Value	Net Book Value
Land	-	283,000	-	283,000
Office, feedlot and feedlot equipment	4%-10%	4,858,000	2,499,000	2,360,000
Feedmill	6.67%	1,063,000	696,000	366,000
Ethanol plant and processing equipment	5%-10%	12,594,000	7,937,000	4,657,000
Automotive equipment	20%	1,615,000	1,103,000	512,000
		20,413,000	12,235,000	8,178,000
				8,818,000

5. Start-Up and Organizational Costs

			2003	2002
Start-up costs			243,000	243,000
Organizational costs			138,000	138,000
			381,000	381,000
Accumulated amortization			227,000	208,000
			154,000	173,000

6. Bank Indebtedness

			2003	2002
Cash account, less outstanding cheques			619,000	121,000
Operating loan			9,500,000	6,230,000
			10,119,000	6,351,000

The operating loan carries interest at bank prime and is payable monthly. The loan is secured under Section 427 of the Bank Act by the assets of Pound-Maker Agventures Ltd. and by an unlimited guarantee by Pound-Maker Investments Ltd.

The terms of the operating loan require that certain measurable covenants be met. As at July 31, 2003, the company was in violation of certain covenants, for which the lender subsequently provided a written waiver stating that it will not demand repayment of the operating loan for a period of more than one year from July 31, 2003. 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, 2003

7. Long-term Debt	2003	2002
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.	1,417,000	1,730,000
Farm Credit Canada loan #1 - repayable in monthly instalments of \$33,000 including interest at FCC's closed variable mortgage rate less 0.6%. The loan matures August 1, 2012.	3,020,000	3,250,000
Farm Credit Canada loan #2 - repayable in monthly instalments of \$33,000 including interest at FCC's closed variable mortgage rate less 0.6%. The loan matures August 1, 2012.	3,020,000	3,250,000
	7,457,000	8,230,000
Less current portion	719,000	799,000
	6,738,000	7,431,000

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

Subsequent to July 31, 2003, the company exercised the option provided by FCC, as a result of the Bovine Spongiform Encephalopathy ("BSE") crisis, to defer principal loan payments on the FCC loans for a period of up to one year.

The terms of the FCC loans require that certain measurable covenants be met. As at July 31, 2003, the company was in violation of certain covenants, for which the lender subsequently provided a written waiver stating that it will not demand repayment of the loans for a period of more than one year from July 31, 2003. 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:

2004	\$ 719,000
2005	885,000
2006	922,000
2007	961,000
2008	735,000

8. Subordinated Shareholders' Loans

The subordinated shareholders' loans are subject to interest only at the discretion of the Board of Directors of the company, are repayable at the discretion of the Board of Directors of the company and are subordinated to all liabilities of the company.

The loans are repayable in the event the company is wound-up or sold to outside interests.

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

For the year ended July 31, 2003

9. Share Capital

	2003	2002
Authorized:		
Unlimited number of Class A common voting shares		
Unlimited number of Class B shares		
Issued:		
643,000 Class A common shares	1,443,000	1,443,000
	1,443,000	1,443,000

10. Contributed Surplus

On December 5, 2000 the company acquired an additional 22% interest in its subsidiary Pound-Maker Agventures Ltd. for \$1,750,000. The carrying value of this portion of the minority interest at that time was \$2,444,000. The difference of \$694,000 has been charged to contributed surplus.

On January 4, 2002 the company, through its wholly owned subsidiary 1010225221 Saskatchewan Ltd., acquired the remaining 22% interest in its subsidiary Pound-Maker Agventures Ltd. for \$1,978,000. The carrying value of this portion of the minority interest at that time was \$2,339,000. The difference of \$361,000 has been charged to contributed surplus.

11. Cost of Goods Sold

	2003	2002
Cattle	21,388,000	37,538,000
Feedstocks	16,232,000	15,321,000
Production costs	3,965,000	3,469,000
Interest	475,000	594,000
	42,060,000	56,922,000

12. Related Party Transactions

Pound-Maker Investments Ltd. is the parent company of Pound-Maker Agventures Ltd. Some of the shareholders, members of the Boards of Directors and management of both companies have supplied material amounts of cattle and feedstocks to Pound-Maker Agventures Ltd. Transactions with related parties are in the ordinary course of business and are made on the same terms and conditions as transactions with unrelated parties.

13. Commitments

The sale of fuel grade ethanol is governed by the terms of an agreement established between Pound-Maker Agventures Ltd. and Husky Oil. Terms related to the pricing formula and annual volumes are subject to negotiation annually. The contract expires December 31, 2005 with automatic renewal each year subsequent to the year ending December 31, 2005 unless either party gives one year's notice of intent to terminate the agreement.

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

For the year ended July 31, 2003

14. Minority Interest

As explained in note 10 above, during 2002 the company acquired the shares held by the minority shareholders. The statement of earnings for the 2002 fiscal year reflects that portion of the earnings (loss) for the year attributable to the minority shareholders' interest for the portion of the year the shares were held by the minority shareholders.

15. 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 20% (2002 – 69%) of outstanding accounts receivable. Receivables related to the oil industry represent approximately 13% (2002 – 15%) of the total outstanding. Receivables from Federal and Provincial Governments relating to assistance to supplement lost revenues due to adverse cattle market conditions represent approximately 32% (2002 – nil%) of outstanding accounts receivable. 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.

Fair Value Disclosure

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Receivables	4,787,000	4,787,000	3,510,000	3,510,000
Bank indebtedness	10,119,000	10,119,000	6,351,000	6,351,000
Accounts payable	2,333,000	2,333,000	2,105,000	2,105,000
Long-term debt	7,457,000	7,400,000	8,230,000	8,101,000

The estimated fair values of the financial assets and liabilities included in current assets and current liabilities in these consolidated 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.

16. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

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

	2003	2002	2001	2000	1999
Financial					
Sales Revenue	\$45,048,000	\$56,621,000	\$69,772,000	\$62,791,000	\$58,609,000
Net earnings (loss)	(\$340,000)	(\$2,111,000)	\$1,160,000	\$677,000	(\$110,000)
Net earnings (loss) per share	(\$0.53)	(\$3.28)	\$1.80	\$1.05	(\$0.17)
Long-term debt	\$7,457,000	\$8,230,000	\$5,313,000	\$6,017,000	\$6,701,000
Net working capital (excluding future income taxes)	\$8,014,000	\$8,681,000	\$10,565,000	\$10,577,000	\$8,630,000
Total assets	\$29,517,000	\$26,927,000	\$33,190,000	\$32,855,000	\$34,013,000
Total assests, net of Minority Interest therein	\$29,517,000	\$26,927,000	\$30,682,000	\$28,023,000	\$29,709,000
Shareholder's equity end of year (1)	\$6,458,000	\$6,798,000	\$8,548,000	\$6,694,000	\$6,017,000
Shareholder's equity per share end of year (1)	\$10.04	\$10.57	\$13.29	\$10.41	\$9.36
Operational					
Number of cattle marketed					
Company	24,000	37,241	47,905	47,485	48,032
Custom	<u>10,895</u>	<u>11,421</u>	<u>7,226</u>	<u>6,315</u>	<u>8,317</u>
Total	<u>34,895</u>	<u>48,662</u>	<u>55,131</u>	<u>53,800</u>	<u>56,349</u>
Liters of fuel ethanol Produced	<u>11,781,000</u>	<u>11,232,000</u>	<u>12,696,000</u>	<u>8,011,000</u>	<u>12,470,000</u>
Tonnes of feedstock consumed:					
Barley	65,163	69,246	69,384	69,402	69,811
Forages	22,866	20,563	22,434	23,860	26,031
Ethanol grain feedstocks	<u>32,107</u>	<u>30,336</u>	<u>34,753</u>	<u>21,720</u>	<u>33,440</u>
Total	<u>120,136</u>	<u>124,145</u>	<u>126,571</u>	<u>114,982</u>	<u>129,282</u>

(1) excludes subordinated shareholders' loans