Pound-Maker Investments Ltd.

2004 Annual Report

CORPORATE PROFILE

Pound-Maker Investments Ltd. and its wholly owned subsidiary Pound-Maker Agventures Ltd. (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 30,000 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 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.

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.

OurVision

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.

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MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors I am pleased to present to you Pound-Maker's Annual report for the fiscal year ended July 31, 2004.

The past two years have been some of the most difficult in the history of our company, brought on by the BSE discovery, the collapse of fed cattle prices, and the unprecedented uncertainty of its future impacts. While it is difficult to have any satisfaction in reporting that the company experienced a loss in earnings this past year of $463,000, we understand the company's financial losses are minimal when compared to others in the feedlot industry in Canada. This has not been by chance, but rather is the result of hard work by our management team to minimize our losses and to take advantage of opportunities to reduce the company's financial exposure during these uncertain times. Additionally, our efforts to diversify our cattle feeding business several years ago through expanding into the production of fuel ethanol has helped significantly this past year to stabilize our financial results. Fiscal 2004 was one of the best years since 1995 for earnings in our ethanol division.

Our financial position is strong as indicated by our financial ratios. We are expecting fiscal 2005 to be a very good year for our ethanol division given current high crude oil and gasoline prices and reduced feedstock costs. Uncertainty still exists in our feedlot division given there has been no significant resolution to the beef trade issues with the U.S. or with Canada's traditional Asian export markets. However we are optimistic given the recent announcements of various government initiatives designed to stabilize the Canadian cattle industry pending resolution of these trade issues. The set aside program that was just recently implemented in the industry has thus far had a positive impact on fed cattle prices.

The Board of Directors would at this time like to commend both Brad Wildeman, the President of our subsidiary Pound-Maker Agventures, and the management team. Pound-Maker Agventures, through the efforts of Brad, has played a key role in working with both government and industry stakeholders to seek out and implement solutions to the current crisis. These initiatives have a significant financial benefit to our company. It has, however, required Brad to travel extensively for extended periods of time. Our management team, along with all our employees, deserve to be commended for the manner in which they have stepped up to the challenge and have managed operations during this time. As well, these actions demonstrate the strength and depth of our management team.

As was indicated and discussed at our last annual meeting, we are continuing to explore alternatives available to us to enhance the liquidity of our investors' shares and as to how the company might maximize shareholder value. It is our intention to present some of our findings at this year's annual meeting and we would encourage your participation in these discussions.

While uncertainties prevail in the short-term, we believe strongly in the future of our company; it's ability to return to profitability, and its ability to provide value to it's shareholders in future years. Thank you for this opportunity to report to you again.

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

MESSAGE TO SHAREHOLDERS

It is my pleasure and honor to report to you again this year on the activities and results of the past year.

This past fiscal year marked the first full year of results since the BSE discovery in May 2003. As I reported last year, the impact of this discovery on the Canadian cattle industry has been unprecedented in the history of Canadian agriculture, and still remains unresolved.

While the consequences of this crisis, both physically and financially, could have resulted in total disaster and massive restructuring for the cattle industry, and the feed grain sector that is largely dependant on the cattle industry, several interventions by provincial and federal governments have prevented this from occurring. Since my last report to you, I have been asked, in concert with fellow cattlemen and government officials, to chair the BSE Contingency Committee. This committee has been charged with the mandate to develop the conceptual plan and administrative details behind the past three BSE deficiency programs announced by the federal government, as well as work internationally to lobby for trade resumption. I must express my gratitude to all levels of government, and all political parties within them, for their unwavering support of our industry. The financial benefit of these programs has amounted to over $7 million directly to Pound-Maker Agventures Ltd. to help offset losses thus far. Additionally, the effects of the recently announced Fed Cattle Set Aside program has resulted in increased fed cattle prices of over $225/head directly from the marketplace, and will assist the industry to manage the oversupply situation until markets normalize or new processing capacity comes on stream. Not included are the benefits that the company will see from its enrollment in the CAIS program, which although unknown at this time, are anticipated to be substantial. This responsibility was an enormous undertaking, which required me to spend countless days away from the Pound-Maker site. This was only possible because of the tremendous commitment of both our management team, and all our staff. I want to particularly thank the Board of Directors, for their patience and support during this time to allow me to undertake our efforts to resume trade internationally, as well as ensure the viability of the industry, and thereby Pound-Maker, to capture opportunities once trade is normalized. Pound-Maker has consistently shown leadership in every challenge that has faced the industry in the past few years, and is highly regarded throughout Canada for its unselfish commitment to the betterment of our industry. This can only be accomplished through the vision and belief of your Board of Directors that the key to our prosperity is not just capturing more of a shrinking marketplace, but by collectively growing opportunities which will mean more prosperity for everyone.

The financial results in the ethanol division this past year have been very encouraging. The record high oil prices have caused a corresponding increase in gasoline prices; the basis on which our ethanol sales price is established. It is also encouraging to hear of Husky Energy's commitment to include 10% ethanol in all of their gasoline blends in British Columbia, as part of their stated goal of marketing ethanol blended fuel in all of their blends in western Canada in the future. This should result in increased sales in the future years. The vision of our past Directors to diversify our business units is certainly proving its worth this past year. We look forward to superior earnings in this division in the next fiscal year.

With an abundance of feed quality wheat that our shareholders will need to market this year, we are focused on maximizing the use of these feedstocks in our operations. Our ethanol facility will provide a market for these grains this year; and we are also developing feed rations to maximize the usage of these feedgrains over the coming months. We are committed to our shareholders, and we are committed to purchasing as much as possible from our shareholder base. While this will not in itself cure the oversupply situation for distressed grains, we project using some 3 million bushels over the coming year.

While we have experienced some very stressful times over the past 30 months, there is cause for optimism in the future. The recent announcements from our federal government to facilitate increased slaughter capacity will significantly assist our industry by being able to process all our cattle production in Canada, to reduce our reliance on U.S. processors, but also by producing new beef products that can be sold internationally. This will have long-term benefits for our industry, even after markets reopen for Canadian cattle and beef products. Secondly, the recent announcements in Japan and Taiwan, as well as an anticipated reopening in Hong Kong, show that while perhaps some time away, there is light at the end of the tunnel. Additionally, we are also hearing there is likely to be movement in the U.S. position now that the election is complete. The industry is poised to engage a full advocacy strategy in the U.S. to encourage that trade resumption is a priority for the new administration, in conjunction with like-minded counterparts in the U.S.

MESSAGE TO SHAREHOLDERS – (Continued)

I also believe that our management team has done as much as possible to manage this issue, in spite of all the uncertainty. Our ability to attract new, large investor feeders to offset risk, and our focus on strict cost control has reduced our losses as much as possible. We continue to be one of the lowest cost producers of fed beef anywhere in North America. Our leadership in the past years has established our company as one of professionalism and highest integrity. These initiatives position the company positively for the future. We see a bright future for ethanol, and are investigating our ability to increase production and efficiency now that we have a proposed mandate for ethanol use in Saskatchewan; yet another accomplishment of our lobbying efforts provincially. I firmly believe that we will emerge from this crisis in a strong position to capture the opportunities of a new environment for both our business enterprises.

I thank all of you for your support in the past, and respectfully submit this report.

Brad Wildeman
President
Pound-Maker Agventures Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS – 2004

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 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		
	2004	**2003**	**2002**
	(In thousands except per share and percentage amounts)		
Sales revenue **- Number of cattle marketed** (1) **- Litres of ethanol**	$47,859 46 11,425	$45,048 35 11,611	$56,621 49 11,141
Net earnings (loss) **- Per share** (2)	($463) ($0.72)	($340) ($0.53)	($2,111) ($3.28)
Shareholders' equity **-Per share** (2)	$5,995 $9.32	$6,458 $10.04	$6,798 $10.57
Return (loss) on shareholders' equity	(7.1)%	(5.1)%	(27.5)%
Capital expenditures	$88	$299	$407
Total assets	$20,885	$29,517	$26,927
Long term liabilities (3)	$7,408	$7,769	$8,692
Dividends on Class "A" common shares	$-	$-	$-

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 incurred a net loss from operations for the year ending July 31, 2004 of $641,000 ($463,000 after provision for recovery of taxes), as compared to an operating loss in 2003 of $396,000 (after tax, $340,000).

Sales for fiscal 2004 were $47.9 million, an increase of $2.8 million (6.2%) over 2003. Sale volumes of finished cattle in 2003 were reduced due to the discovery of BSE in a single Alberta cow in May 2003. The U.S. border was closed to beef imports from Canada shortly thereafter. This had a significant negative impact on the Canadian price of finished cattle. On August 8, 2003, the U.S. opened its border to boneless cuts of meat less than 30 months old, however, Canada has insufficient processing capacity to kill and process its annual finished cattle production. The U.S. border continues to remain closed to live cattle imports. Canadian cattle markets have remained soft throughout most of fiscal 2004. Conversely, net operating profits 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.

Feedstock costs for both the cattle feeding and fuel ethanol divisions were $14.6 million in 2004, $1.7 million less than in 2003; due in large part to reductions in the cost of feed grains.

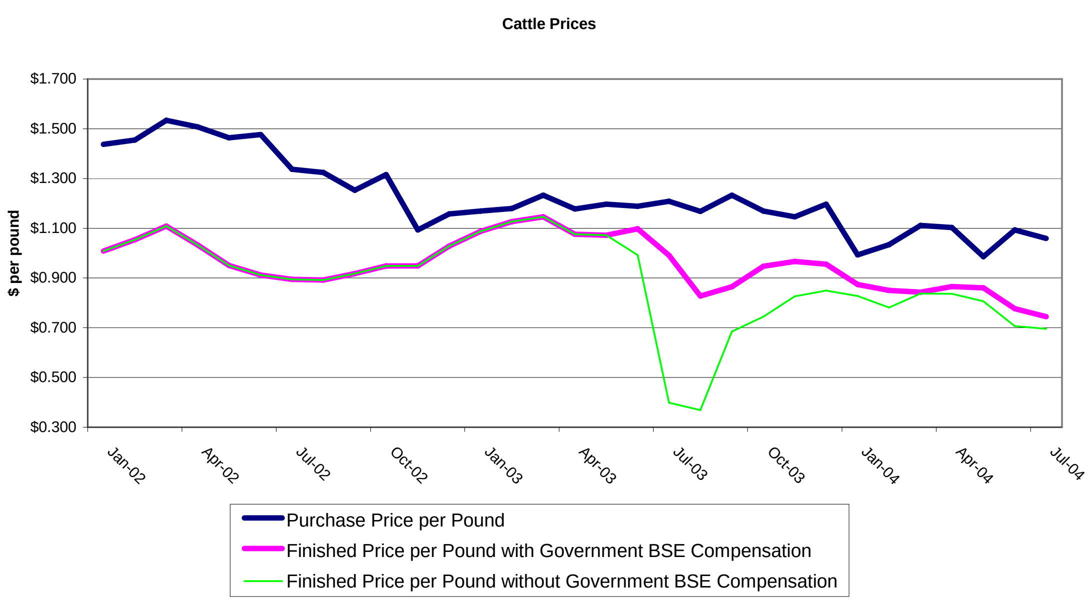
Sales for fiscal 2004 include $5,413,000 (2003 - $1,528,000) in assistance received by the company under the Canada-Saskatchewan BSE Recovery Program and the Transitional Industry Support Program. Payments under these programs are recognized as revenue by the company when the relevant application forms are filed, as reasonable assurance exists regarding measurement and collectibility of the assistance. Additionally, management of the company believes that the company may be eligible for assistance for its 2003 and 2004 fiscal years under the Canadian Agricultural Income Stabilization program ("CAIS"). However, as at September 24, 2004 no assistance had been received by the company under CAIS 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 the 2003 or 2004 fiscal years.

Cattle Feeding Division

The company marketed 46,066 head of cattle (30,787 company cattle and 15,279 custom cattle) in fiscal 2004, compared to marketings of 34,985 head (24,000 company cattle and 10,985 custom cattle) in 2003 and 48,786 head (37,241 company cattle and 11,545 custom cattle) in 2002. The significant drop in 2003 marketings compared to 2002 marketings was a direct result of the inability of the company to market many cattle in the balance of its 2003 fiscal year after the discovery of BSE in May of 2003. Marketings in 2004 were up 32% over 2003, returning near the level of the company's 2002 marketings.

Custom cattle feeding activities and revenues remained relatively strong in fiscal 2004 despite the uncertainties that prevailed in the industry during the year. A substantial portion of the customer interest related to the custom finishing of cattle was from U.S. investors. These investors have been buying cattle in Canada on the speculation that the border will reopen. As these cattle cannot be shipped to the U.S., they are being fed in Canada. The company has been able to take advantage of this situation and finish these cattle under custom feeding arrangements.

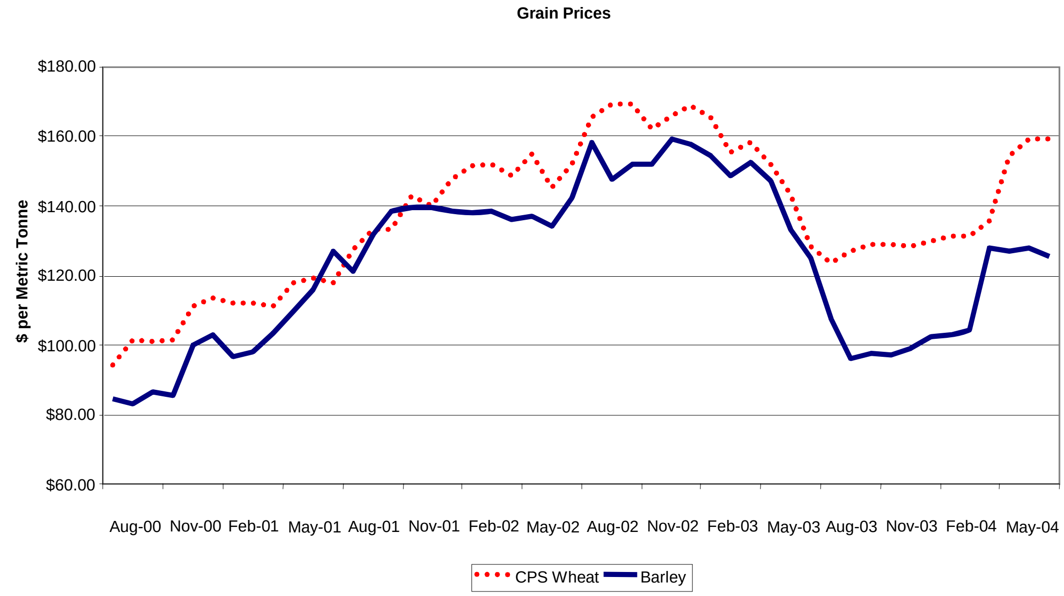
Gross margins on company purchased cattle were substantially reduced in 2004. This is as a result of a reduction in the sales price realized for finished cattle. The average annual price for 2004 has decreased by over 24% from 2003.



The utilization rate of the feedlot declined to 73.5% this year as compared to 82.2% in the previous year.

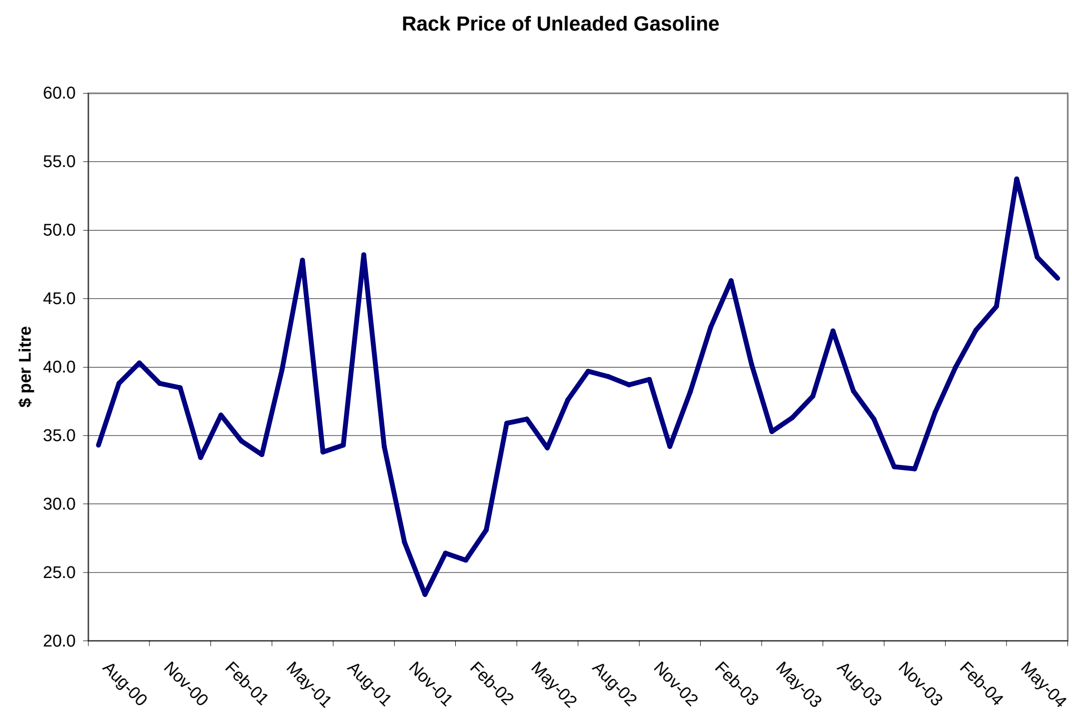
MANAGEMENT DISCUSSION AND ANALYSIS – 2004 – (Continued)

Feed costs for the cattle feeding division decreased by 9% as a result of lower grain costs. The following graph represents CPS wheat and barley prices over the last number of years.



Fuel Ethanol Division

Fuel ethanol sales for 2004 totalled 11.4 million litres, down slightly from 2003. Net operating profit for the ethanol division was up $866,000. This was primarily a result of an increase in total revenues and a decrease in feedstock costs. Ethanol sales revenues were and continue to be strong as ethanol prices continue to rise as the price of gasoline increases. Feedstock costs were reduced due to the decline in the cost of feed grains in fiscal 2004 as compared to 2003.



Summary of Semi Annual Results

	In thousands except per share results Fiscal 2004		
	Year ended July 31	**6 months ended July 31**	**6 months ended Jan 31**
Total revenues	$47,859	$24,505	$23,354
Net earnings (loss) **-Total** **-Per share** [(1)]	 $(463) $(0.72)	 $(505) $(0.79)	 $42 $0.07
	Fiscal 2003		
Total revenues	$45,048	$22,223	$22,825
Net earnings (loss) **-Total** **-Per share** [(1)]	 $(340) $(0.53)	 $166 $0.26	 ($506) ($0.79)

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.

Liquidity and Capital Resources

As at July 31, 2004 the company's total capitalization, including shareholders' equity and long-term debt (including the current portion of long-term debt) was $13,403,000 (2003 - $14,227,000). Shareholders' equity includes $5,995,000 ($9.32 per share) in common share capital (2003 - $6,458,000, $10.04 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 instalments of $355,000, including interest at 2.4% per annum and matures January 1, 2008. As of July 31, 2004 $1,096,000 remained outstanding in respect of this WDO contribution (2003 - $1,417,000).

- 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%. Both loans are amortized over ten years and repayable in monthly instalments of $33,000 and both loans mature August 1, 2012. As of July 31, 2004 $6 million was outstanding under these loans (2003 - $6,040,000). 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, and a $6,500,000 guarantee by Pound-Maker Investments Ltd. During the year, the company exercised an option provided by the lender as a result of the BSE crisis to defer principal loan payments on the loans for up to one year. Principal payments recommenced in September, 2004.

- Subordinated shareholders' loans that are subordinated to all liabilities of the company, are subject to interest only at the discretion of the board of directors of the company and are repayable at the discretion of the board of directors. These shareholders loans are repayable in the event the company is wound-up or sold to outside interests.

The company has operating credit facilities with a Canadian chartered bank to a maximum of $25,000,000 (subject to margining requirements) of which $3,018,000 was outstanding as of July 31, 2004, compared to $10,119,000 at the end of fiscal 2003.

The company's loan agreements with both its term and operating lenders include covenants requiring the company to maintain certain financial ratios. At certain times during the year the company was in violation of certain of these ratios, but the lenders provided temporary waivers and as of July 31, 2004 the company was in compliance with all of its covenants in this regard. Management expects that the company will remain in compliance with these covenants throughout the 2005 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	2004	2003	2002
Current ratio (1)	2.37	1.61	1.94
Long-term debt to equity (1)	1.24	1.20	1.28
Debt to equity (1)	2.04	3.13	2.52

(1) Excludes future income taxes

Risks and Uncertainties

The BSE discovery in Canada in May 2003 has had a major impact on the Canadian beef industry and on the company itself. Since that time, shipments of live cattle to the U.S. have been stopped, although the U.S. border opened on August 8th 2003 to the shipment of boneless cuts from cattle less than 30 months of age. The restricted access to the U.S. market continues to impact the sales price of animals marketed by the company. It is not known when the border will open to the importing of live cattle from Canada.

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

Historically, the company is 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, the impact of U.S. dollar changes since the closure of the U.S. border to Canadian cattle has affected the relationship between U.S. and Canadian beef prices, thereby reducing the company's exposure to fluctuations in the U.S. currency.

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.

MANAGEMENT DISCUSSION AND ANALYSIS – 2004 – (Continued)

Future Outlook

Uncertainty still exists for the cattle feeding division due to the current BSE situation. The U.S. border remains closed to live cattle imports and it is uncertain when this will change.

The recent BSE support programs that have been implemented appear to be effective and are helping to support finished beef prices. The company is continuing to take advantage of custom feeding opportunities, which are providing a steady source of revenues.

The future outlook for the ethanol division is very positive. The price of gasoline continues to increase as the price of oil rises. This is expected to result in higher prices for ethanol and higher revenues for the company.

The Saskatchewan government has implemented a mandate for all gasoline sold in the province to contain 2% ethanol by May 1, 2005. This is expected to increase demand for ethanol produced in Saskatchewan and should help sustain higher prices.

Market costs for feedstocks, which are currently low relative to previous years, should result in lower input costs for both the cattle feeding and ethanol divisions.

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, 2004 and June 30, 2003 was 643,000 common shares and no preferred shares. No shares were issued during fiscal 2004 and no 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.

To the Shareholders
Pound-Maker Investments Ltd.

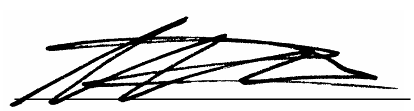
Management has responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates 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 of Directors who are not employees of the Company. The Audit Committee is appointed by the Board to review the consolidated financial statements in detail 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 the Board of Directors to discuss their audit findings.


President


Chief Financial Officer

To the Shareholders:
Pound-Maker Investments Ltd.

We have audited the consolidated balance sheets of **Pound-Maker Investments Ltd.** as at July 31, 2004 and 2003 and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years 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 audits.

We conducted our audits 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, 2004 and 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Saskatoon, Canada
October 4, 2004

Chartered Accountants

Pound-Maker Investments Ltd.
Consolidated Balance Sheet
As at July 31

	2004	*2003*
Assets		
Current		
Accounts receivable	**2,746,000**	4,787,000
Corporate taxes receivable	**121,000**	47,000
Prepaid expenses	**58,000**	55,000
Inventory (Note 3)	**10,500,000**	16,296,000
	13,425,000	21,185,000
Property, Plant and Equipment (Note 4)	**7,325,000**	8,178,000
Start-Up and Organizational Costs (Note 5)	**135,000**	154,000
	20,885,000	29,517,000
Liabilities		
Current		
Bank indebtedness (Note 6)	**3,018,000**	10,119,000
Accounts payable and accrued liabilities	**1,798,000**	2,333,000
Current portion of long-term debt (Note 7)	**842,000**	719,000
	5,658,000	13,171,000
Future income taxes (Note 12)	**1,608,000**	1,879,000
	7,266,000	15,050,000
Long-Term Debt (Note 7)	**6,254,000**	6,738,000
Subordinated Shareholders' Loans (Note 8)	**312,000**	312,000
Future Income Taxes (Note 12)	**1,058,000**	959,000
	14,890,000	23,059,000
Shareholders' Equity		
Share capital (Note 9)	**1,443,000**	1,443,000
Contributed surplus (Note 10)	**1,055,000**	1,055,000
Retained earnings	**3,497,000**	3,960,0000
	5,995,000	6,458,000
	20,885,000	29,517,000

ON BEHALF OF THE BOARD

Director

Director

Pound-Maker Investments Ltd.

Consolidated Statement of Earnings (Loss) and Retained Earnings

For the years ended July 31

	2004	*2003*
Sales (Note 2)	**47,859,000**	45,048,000
Cost of goods sold (Note 11)	**45,229,000**	42,060,000
Gross profit	**2,630,000**	2,988,000
Expenses		
Operating and administrative	**2,145,000**	2,218,000
Depreciation and amortization	**960,000**	958,000
Interest on long-term debt	**166,000**	208,000
	3,271,000	3,384,000
Earnings (loss) from operations	**(641,000)**	(396,000)
Provision for (recovery of) corporate taxes (Note 12)		
Future	**(178,000)**	(144,000)
Capital	**-**	88,000
	(178,000)	(56,000)
Net earnings (loss) for the year	**(463,000)**	(340,000)
Retained earnings, beginning of year	**3,960,000**	4,300,000
Retained earnings, end of year	**3,497,000**	3,960,000
Loss per share (Note 13)		
Basic and diluted	**(0.72)**	(0.53)

Pound-Maker Investments Ltd.
Consolidated Statement of Cash Flows
For the years ended July 31

	2004	*2003*
Cash provided by (used in) the following activities		
Operating		
Net earnings (loss) for the year	**(463,000)**	(340,000)
Charges to operations not affecting cash		
Future income taxes	**(178,000)**	(144,000)
Depreciation and amortization	**960,000**	958,000
	319,000	474,000
Change in non-cash working capital balances related to operations		
Accounts receivable	**2,041,000**	(1,277,000)
Corporate taxes receivable	**(68,000)**	30,000
Prepaid expenses	**(3,000)**	(7,000)
Inventory	**5,796,000**	(1,995,000)
Accounts payable	**(535,000)**	229,000
	7,550,000	(2,546,000)
Investing		
Purchases of property, plant and equipment	**(88,000)**	(299,000)
Financing		
Increase (decrease) in bank indebtedness	**(7,101,000)**	3,768,000
Loan repayments	**(361,000)**	(773,000)
Repayment of subordinated shareholders' loans	-	(150,000)
	(7,462,000)	2,845,000
Net increase (decrease) in cash resources	**-**	-
Cash resources, beginning of year	-	-
Cash resources, end of year	-	-

Additional disclosure required:

Interest paid	**581,000**	692,000
Corporate tax paid	**65,000**	80,000

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.

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.

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.

Government Assistance

Due to the measurement uncertainty related to program eligibility, reimbursement rate and termination date, government assistance under the Canadian Agricultural Income Stabilization program is recognized as revenue when received. The Company may be eligible for assistance for the July 31, 2003 and July 31, 2004 fiscal years. However, as at September 24, 2004 no assistance has been received and therefore no revenue has been reported or accrued for this program for the July 31, 2003 or July 31, 2004 fiscal years.

Government assistance received under the Canada-Saskatchewan Bovine Spongiform Encephalopathy Recovery Program and the Transitional Industry Support Program are recognized as revenue when the relevant application forms are filed, as reasonable assurance exists regarding measurement and collectibility of the assistance. Sales for the year include $5,413,000 (2003 - $1,528,000) of assistance under these 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

	2004	*2003*
Cattle	**8,353,000**	13,951,000
Feedstocks	**1,226,000**	1,611,000
Ethanol	**490,000**	323,000
Supplies	**431,000**	411,000
	10,500,000	16,296,000

4. Property, Plant And Equipment

	Depreciation Rates	Cost	Accumulated Depreciation	*2004* Net Book Value	*2003* Net Book Value
Land	-	**283,000**	-	**283,000**	283,000
Office, feedlot and feedlot equipment	4%-10%	**4,887,000**	**2,657,000**	**2,230,000**	2,360,000
Feedmill	6.67%	**1,063,000**	**768,000**	**295,000**	366,000
Ethanol plant and processing equipment	5%-10%	**12,647,000**	**8,546,000**	**4,101,000**	4,657,000
Automotive equipment	20%	**1,621,000**	**1,205,000**	**416,000**	512,000
		20,501,000	**13,176,000**	**7,325,000**	8,178,000

5. Start-Up and Organizational Costs

	2004	*2003*
Start-up costs	**243,000**	243,000
Organizational costs	**138,000**	138,000
	381,000	381,000
Accumulated amortization	**246,000**	227,000
Net book value	**135,000**	154,000

6. Bank Indebtedness

	2004	*2003*
Cash account, less outstanding cheques	**1,038,000**	619,000
Operating loan	**1,980,000**	9,500,000
	3,018,000	10,119,000

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 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. At certain times during the year, the Company was in violation of certain covenants, for which the lender provided a temporary waiver stating that it will not demand repayment of the operating loan. At July 31, 2004 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

	2004	*2003*
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.	**1,096,000**	1,417,000
Farm Credit Canada loan #1 - repayable in monthly instalments of $33,000 including interest at FCC's closed variable mortgage rate less 0.6% (4.15% at July 31, 2004; 5.15% at July 31, 2003). The loan matures August 1, 2012.	**3,000,000**	3,020,000
Farm Credit Canada loan #2 - repayable in monthly instalments of $33,000 including interest at FCC's closed variable mortgage rate less 0.6% (4.15% at July 31, 2004; 5.15% at July 31, 2003). The loan matures August 1, 2012.	**3,000,000**	3,020,000
	7,096,000	7,457,000
Less current portion	**842,000**	719,000
	6,254,000	6,738,000

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

During the year, 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. Principal payments recommence on September 1, 2004.

The terms of the FCC loans require that certain measurable covenants be met. At certain times during the year, the Company was in violation of certain covenants, for which the lender provided a temporary waiver stating that it will not demand repayment of the loans. At July 31, 2004 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:

2005	$ 842,000
2006	919,000
2007	951,000
2008	718,000
2009	660,000

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.

9. Share Capital

	2004	2003
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, 2002, 2003 and 2004)	**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 credited to contributed surplus.

On January 4, 2002 the Company, through its wholly owned subsidiary 101025221 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 credited to contributed surplus.

11. Cost of Goods Sold

	2004	2003
Cattle	**26,708,000**	21,388,000
Feedstocks	**14,561,000**	16,232,000
Production costs	**3,446,000**	3,965,000
Interest	**514,000**	475,000
	45,229,000	42,060,000

12. Income Taxes

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

	2004	2003
Timing differences related to cash reporting for income taxes (current)	**1,608,000**	1,879,000
Non-capital losses being carried forward (long-term)	**(115,000)**	(313,000)
Timing differences related to property, plant and equipment (long-term)	**1,146,000**	1,251,000
Valuation allowance	**27,000**	21,000
Future income tax liabilities	**2,666,000**	2,838,000

12. Income Taxes (continued)

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

	2004	*2003*
Loss before income taxes for the year	**(641,000)**	(396,000)
Expected tax recovery at 39.1% (2003 - 41.1%)	**(250,600)**	(162,700)
Decrease in recovery due to:		
Manufacturing and processing credit	**28,400**	17,200
Capital taxes	-	88,000
Rate changes and other	**44,200**	1,500
Income tax expense	**(178,000)**	(56,000)

As at July 31, 2004, The Company had the following non-capital losses available to reduce future years' income for tax purposes approximating $336,000. If not utilized, the losses will expire as follows:

2008	20,000
2009	287,000
2010	13,000
2011	16,000

13. Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year of 643,000 (2003 – 643,000). There are no dilutive instruments outstanding at year-end.

14. 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.

15. 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 measured 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 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 2005 unless either party gives one year's notice of intent to terminate the agreement.

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 40% (2003 - 20%) of outstanding accounts receivable. Receivables related to the oil industry represent approximately 42% (2003 - 13%) 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 9% (2003 - 32%) 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

	2004		*2003*	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Receivables	**2,746,000**	**2,746,000**	4,787,000	4,787,000
Bank indebtedness	**3,018,000**	**3,018,000**	10,119,000	10,119,000
Accounts payable	**1,798,000**	**1,798,000**	2,333,000	2,333,000
Long-term debt	**7,096,000**	**7,015,000**	7,457,000	7,400,000

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.

18. Comparative Figures

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

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

	2004	*2003*	*2002*	*2001*	*2000*
Financial					
Sales revenue	$47,859,000	$45,048,000	$56,621,000	$69,772,000	$62,791,000
Net earnings (loss)	($463,000)	($340,000)	($2,111,000)	$1,160,000	$677,000
Net earnings (loss) per share	($0.72)	($0.53)	($3.28)	$1.80	$1.05
Long-term debt	$7,096,000	$7,457,000	$8,230,000	$5,313,000	$6,017,000
Net working capital (excluding future income taxes)	$7,767,000	$8,014,000	$8,681,000	$10,565,000	$10,577,000
Total assets	$20,885,000	$29,517,000	$26,927,000	$33,190,000	$32,855,000
Shareholder's equity end of year	$5,995,000	$6,458,000	$6,798,000	$8,548,000	$6,694,000
Shareholder's equity per share end of year	$9.32	$10.04	$10.57	$13.29	$10.41
Operational					
Number of cattle marketed					
Company	30,787	24,000	37,241	47,905	47,485
Custom	15,279	10,895	11,545	7,226	6,315
Total	46,066	34,895	48,786	55,131	53,800
Litres of fuel ethanol Produced	11,634,2110	11,781,000	11,232,000	12,696,000	8,011,000
Tonnes of feedstock consumed:					
Barley	61,761	65,163	59,246	69,384	69,402
Forages	22,864	22,866	24,563	22,434	23,860
Ethanol grain feedstocks	32,368	32,107	30,336	34,753	21,720
Total	116,993	120,136	124,145	126,571	114,982