



Pound-Maker Investments Ltd.

2005 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 29,000 head of cattle and the ethanol division has an annual production capacity of 13 million litres.

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

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

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## MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors I am pleased to present the Pound-Maker's Annual Report for the fiscal year ended July 31, 2005.

The 2005 fiscal year has proved to be the most profitable in the history of Pound-Maker. Low feedstock prices, improved finished cattle prices, and record high ethanol prices were all factors that allowed both the cattle and ethanol divisions to contribute to the financial success we enjoyed this fiscal year.

This profitability has allowed Pound-Maker to repay shareholders' loans of \$312,000 during the year. This repayment fulfilled the company goal to repay these shareholder loans prior to distributing dividends to shareholders. The company is now in a position to pay dividends and the board has approved a dividend of \$643,000.00, equal to \$1.00 per Class A common share, to be paid to shareholders of record as of October 24, 2005.

The company has also been able to fulfill their objective of providing a good local market for feed grains for its shareholders. Given the substantial amount of feed quality grains in the market this year, the farming community found marketing of feed grains to be a challenge. Pound-Maker was able to provide shareholders with a market for their grain thereby providing them benefits in addition to the financial returns from the business. Given the current situation in the agriculture sector this year, there will again be an excess of feed grains in the market. Shareholders will once again benefit from the market that Pound-Maker will provide for their grains.

While the BSE crisis has had a significant impact on the Canadian cattle industry, it has also served to strengthen it at the same time. Canada has significantly increased their processing capacity which lessens the dependence that the company has on the U.S. cattle market. This should help to stabilize the cattle market and allow Pound-Maker's cattle division to continue to be profitable and more stable into the future.

In addition, the skyrocketing gasoline prices have many looking for alternatives such as ethanol. The price of gasoline is not expected to decrease significantly in the near future which leads to opportunities for ethanol and other alternative fuel producers. Due to these factors, the ethanol fuel division should remain profitable into the future as well.

The Board of Directors has always focused on strategies to increase the value of Pound-Maker shares. The lack of liquidity has been recognized as one of the deterrents to share appreciation in the past. To address this issue, the Board is pleased to announce that it will be initiating a Web based share trading system. The ability to allow easy access for those wishing to purchase or sell shares, and the ability to bid and offer on various volumes of shares will enhance share activity and thereby increase value. We will be demonstrating this system to the shareholders during the Annual Shareholders Meeting prior to its launch.

In closing, on behalf of the board, I would like to commend our management team, and all employees on a job well done. Management has stayed the course through difficult and challenging times and has allowed us to benefit from market conditions and provide excellent returns to our shareholders.



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

## **MESSAGE TO SHAREHOLDERS**

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

This past year saw the cattle industry respond in a very substantial manner to the closure of the United States border to live cattle shipments from Canada. The packing industry has expanded capacity, both through plant expansions and modernizations and through construction of new facilities, to the point where all cattle currently been raised in Canada can now be slaughtered and processed here. This type of processing capacity has not been available in Canada for the past 20 years, and offers new opportunity for Canadian beef and beef products to seek out new markets internationally in the future. And while these expansions have not come without a price to the industry, they will reap benefits for many years to come. We now have the most modern, most efficient plants anywhere in the world. Our overall cattle herd has also grown over the past 2 years, and it is likely that we will sustain these larger numbers given this increased processing capacity, opening up the potential for increased feeding capacity to be built. Prices for finished cattle, and to a lesser extent cull animals, has steadily improved relative to the United States market. This appreciation in value has allowed Pound-Maker to experience significant profit improvement over the past year, as our inventory costs were much lower than in previous years, as we adjusted our cost base for the lower finished prices of 2004. This has resulted in a very significant contribution to the financial success we have experienced this fiscal year.

Our ethanol facility has also been contributing profit in an unprecedented manner. The rapidly rising cost of all energy sources has been reflected in the selling price we receive for our ethanol production. This past year has seen prices at record levels throughout the entire year, and combined with modest feedstock prices has resulted in these superior financial results. Sales have been consistent throughout the year and inventories have been manageable. The below normal quality of the feed grains this year limited the total production of ethanol somewhat however. We are proud to have accessed our feedstock for the plant almost exclusively through our shareholder base; fulfilling our mission to be a value-added market opportunity for our owners.

Over the past year, we have seen positive changes occurring to the business environment of both our business divisions.

In the cattle division, the resumption of trade for live cattle, 30 months of age or younger, has allowed the US packing plants to again compete for our finished cattle, narrowing the difference between US and Canadian cattle prices. It now appears likely that the market to Japan may reopen early in 2006 a market with significant value for Canadian beef. Additionally, as a result of the increased capacity in the Canadian slaughter industry, we have seen a substantial increase in custom feeding interest, predominately by the large corporate feeders, and we project to feed a record amount of custom cattle this year. This allows us to lessen our risk exposure in the cattle division over the next year. Many uncertainties still lay ahead for our industry; both in terms of legal challenges to trade and increased competition for feeder cattle from US buyers, and larger packer feeders. Our ability to keep cattle inventories high, reducing our unit costs, and reducing our exposure to risk should result in a solid earnings year for this division.

In the ethanol division, the announcement by the Province of Saskatchewan to begin to implement the ethanol mandate, beginning in October and expanding in May of 2006, will secure the Saskatchewan market for our ethanol production for many years to come. Within the mandate is a requirement for all retailers in Saskatchewan to access 30% of their ethanol from Saskatchewan ethanol producers with less than 25 million litres per year capacity. Additionally, there appears to be no immediate prospect of lower energy costs, which will maintain the high selling prices we have experienced this past fiscal year to continue for the upcoming fiscal year as well.

We once again anticipate an abundance of feed grain being available to us through our shareholder base, and will therefore continue to limit our purchases predominately to our shareholders exclusively. We believe this will allow us to use substantial volumes of feed grains for our shareholders; and increase share value, both through preferential market access and through higher share prices.

It is also important to note that the various programs that were instituted by the federal and provincial governments were instrumental in allowing us to recover in a substantial way from the effects of the BSE experience. This did not come without a tremendous effort from many dedicated cattle industry people who spent countless hours working to ensure we emerged from this crisis in a position to sustain our industry; and to grow our businesses as new opportunities were available.

In closing, the industries we operate in have experienced significant changes over the past year, and it is still difficult to quantify the effects of all these changes to Pound-Maker's future. I do believe, however, that we have a strong, experienced management team that can adapt and capture new opportunity for our Company. I also know that we have a strong, experienced, and knowledgeable Board of Directors that have guided the Company through some very difficult times, and will continue to guide the Company in the future. It has been a privilege to serve this Company as its President, and I appreciate very much the support I have received from many of our shareholders, our Board, and particularly our management team.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brad Wildeman". The signature is written in a cursive, flowing style.

Brad Wildeman  
President  
Pound-Maker Agventures Ltd.

## MANAGEMENT DISCUSSION AND ANALYSIS – 2005

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			
	2005	2004	2003
(In thousands except per share and percentage amounts)			
<b>Sales revenue</b>	\$40,498	\$47,859	\$45,048
- Number of cattle marketed <sup>(1)</sup>	43	46	35
- Litres of ethanol	11,807	11,425	11,611
<b>Net earnings (loss)</b>	\$3,072	(\$463)	(\$340)
- Per share <sup>(2)</sup>	\$4.78	(\$0.72)	(\$0.53)
<b>Shareholders’ equity</b>	\$9,067	\$5,995	\$6,458
-Per share <sup>(2)</sup>	\$14.10	\$9.32	\$10.04
<b>Return (loss) on shareholders’ equity</b>	40.0%	(7.1)%	(5.1)%
<b>Capital expenditures</b>	\$366	\$88	\$299
<b>Total assets</b>	\$21,278	\$20,885	\$29,517
<b>Long term liabilities <sup>(3)</sup></b>	\$6,274	\$7,408	\$7,769
<b>Dividends on Class “A” common shares</b>	\$ -	\$ -	\$ -
Notes:			
<sup>(1)</sup> Includes cattle fed and owned by company (“company cattle”) and cattle fed by the company but owned by others (“custom cattle”).			
<sup>(2)</sup> The company has no stock option or similar plans, no securities convertible into shares and no obligations to issue any shares in the future such that earnings (loss) and equity per share are the same on a non-diluted as a fully diluted basis.			
<sup>(3)</sup> Includes current portion of long-term debt and excludes future income taxes.			

### Results of Operations

The company had earnings from operations for the year ending July 31, 2005 of \$4,709,000 (\$3,072,000 after provision for taxes), as compared to a loss from operations in 2004 of \$641,000 (loss of \$463,000 after provision for recovery of taxes). This marks the most profitable year in the history of the company.

Sales for fiscal 2005 were \$40.5 million, a decrease of \$7.4 million (15.4%) over 2004. The decline in sales is primarily attributable to a reduction in the number of company cattle marketed during the year as compared to fiscal 2004. Conversely, revenues for the ethanol division were up, as prices received by the company for its ethanol are directly tied to gasoline prices and, accordingly, benefited from record high oil prices during much of the year.

Cost of sales has decreased significantly in the current year, leading to an increase of 16.3% in the gross margin percentage. This is due in large part to reductions in the cost of feed grains. Feedstock costs for both the cattle feeding and fuel ethanol divisions were \$10.9 million, \$3.7 million less than in 2004.

Operating and administrative expenses have increased for fiscal 2005 as compared to 2004 due to the increased costs of fuel, manure handling, corporate governance and development and profit sharing.

## MANAGEMENT DISCUSSION AND ANALYSIS – 2005 – (Continued)

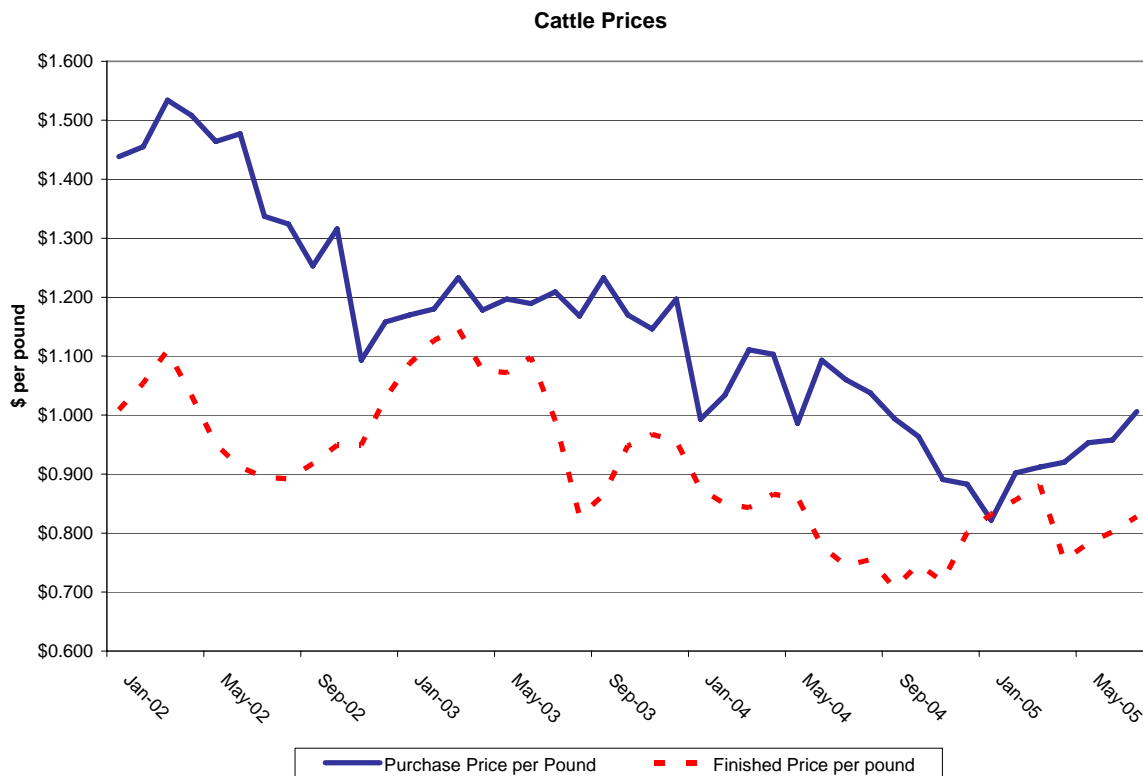
### **Cattle Feeding Division**

Cattle sales for fiscal 2005 decreased approximately \$5 million compared to the sales in 2004. One of the reasons for the change was an overall decrease in the number of cattle marketed. The company marketed 43,102 head of cattle (24,261 company cattle and 18,841 custom cattle) in fiscal 2005, compared to marketings of 46,066 head (30,787 company cattle and 15,279 custom cattle) in 2004. The decrease in 2005 marketings compared to 2004 marketings was a direct result of a management decision to reduce the company's exposure to market risk from the finishing of cattle for market due to the uncertainties related to the opening of the US border to live cattle from Canada and also due to the increased opportunities in feeding additional custom cattle. Revenue decreased further as a result of lower prices being received for the cattle that were marketed and less assistance being received by the company under the Canada-Saskatchewan BSE Recovery Program and the Transitional Industry Support Program. The amount received under the program in fiscal 2005 was \$327,000 as compared to \$5,413,000 in 2004.

Sales for fiscal 2005 include \$952,000 that has been received by the company for the 2003 program year under the Canadian Agricultural Income Stabilization program ("CAIS"). Management believes that the company may also be eligible for assistance for its 2004 program year, however, as at September 21, 2005 no assistance had been received by the company in respect of its 2004 program year 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 2004 program year.

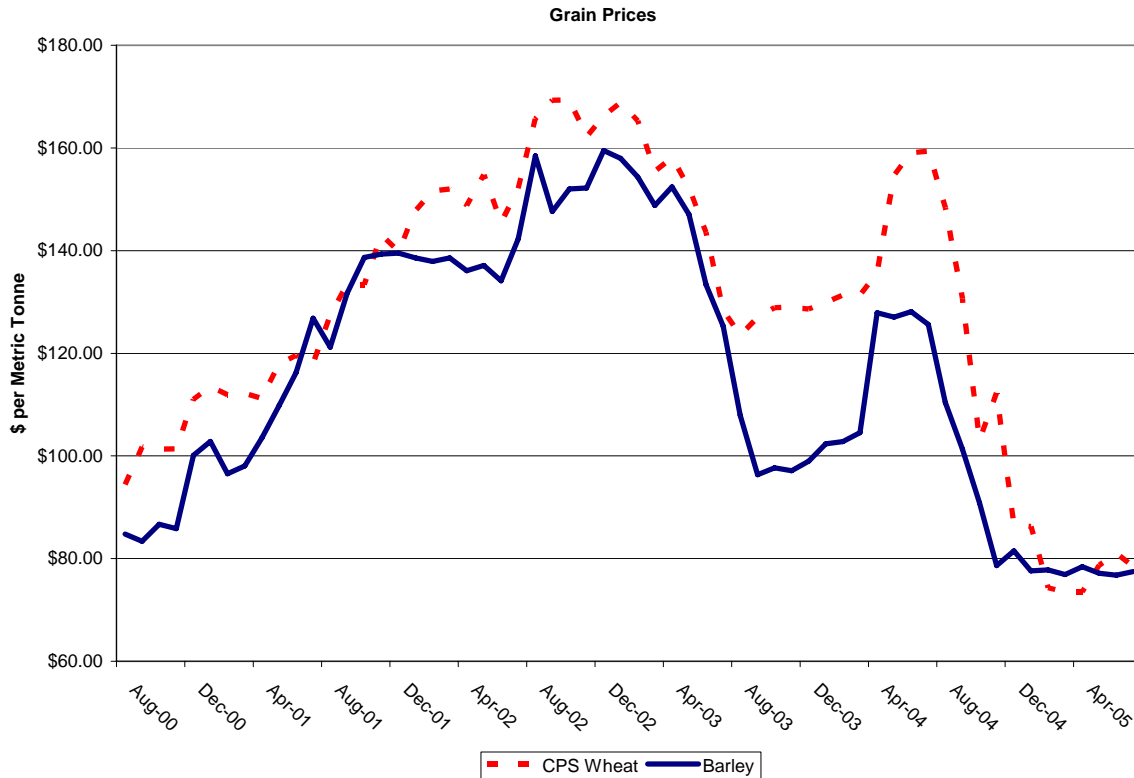
Custom cattle feeding activities and revenues increased in fiscal 2005. The increase in the volume of custom cattle feeding is a result of the Canadian cattle industry returning to more stable prices after the discovery of the existence of BSE in the Canadian cattle herd on May 20, 2003.

Gross margins on company purchased cattle were substantially increased for fiscal 2005. This is as a result of a substantial decrease in the price of feed as well as a decrease in the price spread between finished and feeder cattle prices. The finished and feeder cattle prices per pound are illustrated below.



## MANAGEMENT DISCUSSION AND ANALYSIS – 2005 – (Continued)

Feed costs for the cattle feeding division decreased by 35% as compared to the previous year as a result of lower grain costs. The following graph represents CPS wheat and barley prices over the last number of years.



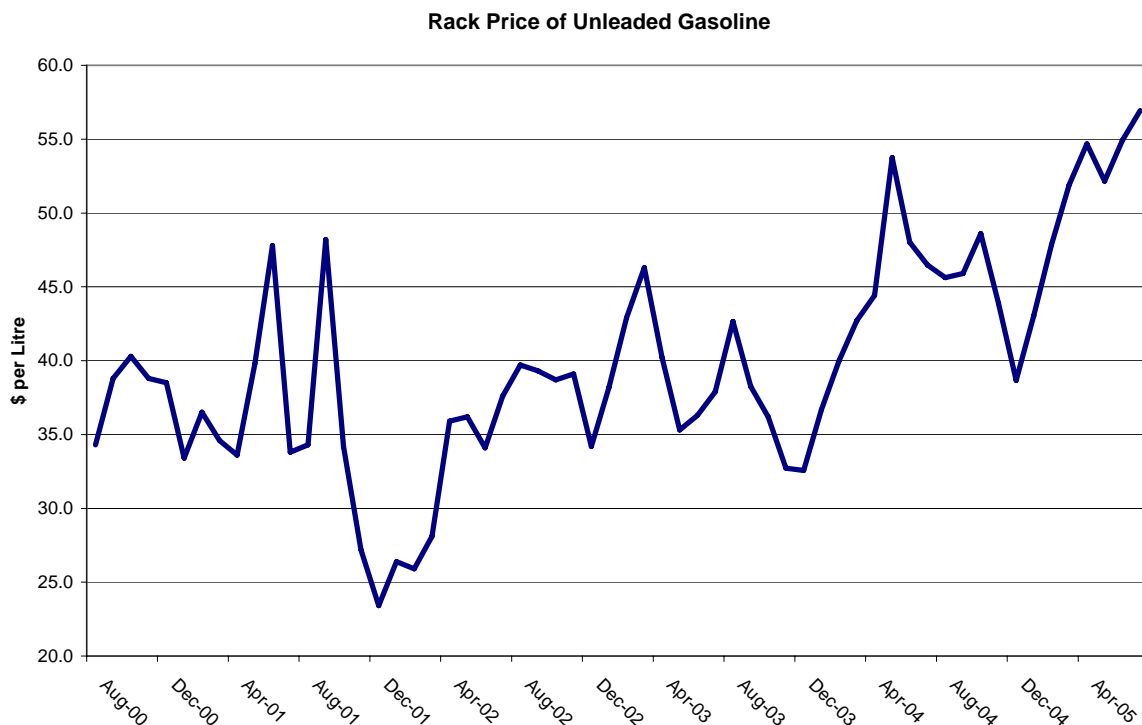
The utilization rate of the feedlot increased slightly to 74.1% this year as compared to 73.5% in the previous year.

### **Fuel Ethanol Division**

Net operating profit for the ethanol division was at a record high in fiscal 2005. The record profits are a result of the increase in the selling price of fuel ethanol coupled with the decrease in feedstock costs.

Fuel ethanol sales for 2005 totalled 11.8 million litres, an increase of 3% over 2004. Fuel ethanol production volumes were adversely affected by the poor quality and lower starch content of feedstocks that were available for processing. While the total litres produced has increased 3%, the total ethanol sales revenues have increased 18% due to the record high rack prices of gasoline as depicted in the following graph.

## MANAGEMENT DISCUSSION AND ANALYSIS – 2005 – (Continued)



### Summary of Semi Annual Results

	In thousands except per share results		
	Fiscal 2005		
	Year ended July 31	6 months ended July 31	6 months ended Jan 31
<b>Total revenues</b>	\$40,498	\$21,766	\$18,732
<b>Net earnings (loss)</b>			
<b>-Total</b>	\$3,072	\$2,316	\$756
<b>-Per share <sup>(1)</sup></b>	\$4.78	\$3.60	\$1.18
	Fiscal 2004		
<b>Total revenues</b>	\$47,859	\$24,505	\$23,354
<b>Net earnings (loss)</b>			
<b>-Total</b>	\$(463)	\$(505)	\$42
<b>-Per share <sup>(1)</sup></b>	\$(0.72)	\$(0.79)	\$0.07

**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.

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

## MANAGEMENT DISCUSSION AND ANALYSIS – 2005 – (Continued)

### **Liquidity and Capital Resources**

As at July 31, 2005 the company's total capitalization, including shareholders' equity and long-term debt (including the current portion of long-term debt) was \$15,341,000 (2004 - \$13,403,000). Shareholders' equity includes \$9,067,000 (\$14.10 per share) in common share capital (2004 - \$5,995,000, \$9.32 per share).

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

- A repayable contribution made by the Government of Canada, Western Diversification Office ("WDO"). The contribution is unsecured, repayable in minimum annual installments of \$355,000, including interest at 2.4% per annum and matures January 1, 2008. As of July 31, 2005 \$767,000 remained outstanding in respect of this WDO contribution (2004 - \$1,096,000).
- 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 installments of \$34,000 and both loans mature August 1, 2012. As of July 31, 2005 \$5.5 million was outstanding under these loans (2004 - \$6,000,000). The loans are secured by a \$10 million mortgage on all property, plant and equipment, a general security agreement granting a second charge security interest in all other assets of Pound-Maker Agventures Ltd., and a \$6,500,000 guarantee by Pound-Maker Investments Ltd. During fiscal 2004, 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 of \$312,000 were repaid during the year.

The company has operating credit facilities with a Canadian chartered bank to a maximum of \$20,000,000 (subject to margining requirements) of which none was outstanding as of July 31, 2005, compared to \$3,018,000 at the end of fiscal 2004.

The company's loan agreements with both its term and operating lenders include covenants requiring the company to maintain certain financial ratios. As of July 31, 2005, the company was in compliance with all of its covenants. Management expects that the company will remain in compliance with these covenants throughout the 2006 fiscal year. The following table summarizes the company's key financial ratios at the end of each of its last three fiscal years.

<b>Key Financial Ratios</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Current ratio</b> <sup>(1)</sup>	4.59	2.37	1.61
<b>Long-term debt to equity</b> <sup>(1)</sup>	0.69	1.24	1.20
<b>Debt to equity</b> <sup>(1)</sup>	0.94	2.04	3.13

<sup>(1)</sup> 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. Shipments of live cattle to the U.S. were stopped after the discovery of BSE which impacted the sales price of animals marketed by the company. In August, 2003, the U.S. border opened to the shipment of boneless cuts from cattle less than 30 months of age and on July 18, 2005, the border was opened to live cattle less than 30 months of age. This opening of the U.S. border will have a positive impact on the company.

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, since the BSE crisis, the Canadian processing capacity has been increasing, thereby reducing the company's reliance on the US export market and exposure to fluctuations in the U.S. currency.

## **MANAGEMENT DISCUSSION AND ANALYSIS – 2005 – (Continued)**

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

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

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

### **Future Outlook**

The U.S. border opening to live cattle under 30 months of age from Canada is a positive step for the cattle feeding division. However, at this time, we cannot be certain that the U.S. border will remain open to live cattle due to the legal challenges against the opening of the border currently being made by R-CALF in the U.S.. The recent increase in processing capacity in Canada helps to mitigate this risk by decreasing the dependence on the U.S. processing market.

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 7.5% ethanol by May 1, 2006. 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, 2005 and July 31, 2004 was 643,000 common shares and no preferred shares. No shares were issued during fiscal 2005 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](http://www.sedar.com).

## Management Responsibility

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

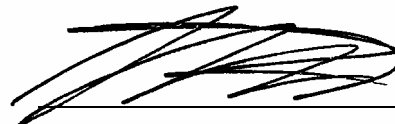
Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in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

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

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

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

 President

 Chief Financial Officer

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

We have audited the consolidated balance sheet of **Pound-Maker Investments Ltd.** as at July 31, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Saskatoon, Canada  
September 9, 2005

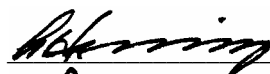
*Margaret Warner Pinnock L.L.B.*  
Chartered Accountants

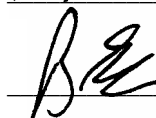
**Pound-Maker Investments Ltd.**  
**Consolidated Balance Sheet**

*For the year ended July 31, 2005*

	2005	2004
<b>Assets</b>		
<b>Current</b>		
Cash	622,000	-
Accounts receivable	3,005,000	2,746,000
Corporate taxes receivable	-	121,000
Prepaid expenses	167,000	58,000
Inventory (Note 3)	10,625,000	10,500,000
	<b>14,419,000</b>	<b>13,425,000</b>
<b>Property, Plant and Equipment</b> (Note 4)	<b>6,743,000</b>	<b>7,325,000</b>
<b>Start-Up and Organizational Costs</b> (Note 5)	<b>116,000</b>	<b>135,000</b>
	<b>21,278,000</b>	<b>20,885,000</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (Note 6)	-	3,018,000
Accounts payable and accrued liabilities	1,675,000	1,798,000
Corporate taxes payable	578,000	-
Current portion of long-term debt (Note 7)	891,000	842,000
	<b>3,144,000</b>	<b>5,658,000</b>
Future income taxes (Note 12)	<b>2,674,000</b>	<b>1,608,000</b>
	<b>5,818,000</b>	<b>7,266,000</b>
<b>Long-Term Debt</b> (Note 7)	<b>5,383,000</b>	<b>6,254,000</b>
<b>Future Income Taxes</b> (Note 12)	<b>1,010,000</b>	<b>1,058,000</b>
	<b>12,211,000</b>	<b>14,578,000</b>
<b>Shareholders' Equity</b>		
Subordinated shareholders' loans (Note 8)	-	312,000
Share capital (Note 9)	1,443,000	1,443,000
Contributed surplus (Note 10)	1,055,000	1,055,000
Retained earnings	6,569,000	3,497,000
	<b>9,067,000</b>	<b>6,307,000</b>
	<b>21,278,000</b>	<b>20,885,000</b>

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, 2005*

	2005	2004
<b>Sales</b> (Note 2)	<b>40,498,000</b>	47,859,000
<b>Cost of goods sold</b> (Note 11)	<b>31,689,000</b>	45,229,000
<b>Gross profit</b>	<b>8,809,000</b>	2,630,000
<b>Expenses</b>		
Operating and administrative	2,992,000	2,145,000
Depreciation and amortization	957,000	960,000
Interest on long-term debt	151,000	166,000
	<b>4,100,000</b>	3,271,000
Earnings (loss) from operations	<b>4,709,000</b>	(641,000)
<b>Provision for (recovery of) corporate taxes</b> (Note 12)		
Future	1,018,000	(178,000)
Current	619,000	-
	<b>1,637,000</b>	(178,000)
<b>Net earnings (loss) for the year</b>	<b>3,072,000</b>	(463,000)
<b>Retained earnings, beginning of year</b>	<b>3,497,000</b>	3,960,000
<b>Retained earnings, end of year</b>	<b>6,569,000</b>	3,497,000
<b>Earnings (loss) per share</b> (Note 13)		
Basic and diluted	<b>4.78</b>	(0.78)

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

*For the year ended July 31, 2005*

	2005	2004
<b>Cash provided by (used in) the following activities</b>		
<b>Operating</b>		
Net earnings (loss) for the year	3,072,000	(463,000)
Charges to operations not affecting cash		
Future income taxes	1,018,000	(178,000)
Depreciation and amortization	957,000	960,000
Gain on sale of property, plant and equipment	(42,000)	-
	<b>5,005,000</b>	319,000
Change in non-cash working capital balances related to operations		
Accounts receivable	(259,000)	2,041,000
Corporate taxes payable	699,000	(68,000)
Prepaid expenses	(109,000)	(3,000)
Inventory	(125,000)	5,796,000
Accounts payable	(123,000)	(535,000)
	<b>5,088,000</b>	7,550,000
<b>Investing</b>		
Purchase of property, plant and equipment	(366,000)	(88,000)
Proceeds from sale of property, plant and equipment	52,000	-
	<b>(314,000)</b>	(88,000)
<b>Financing</b>		
Increase (decrease) in bank indebtedness	(3,018,000)	(7,101,000)
Loan repayments	(822,000)	(361,000)
Repayment of subordinated shareholders' loans	(312,000)	-
	<b>(4,152,000)</b>	(7,462,000)
<b>Net increase (decrease) in cash resources</b>	<b>622,000</b>	<b>-</b>
<b>Cash resources, beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash resources, end of year</b>	<b>622,000</b>	<b>-</b>
Additional disclosure required:		
Interest paid	344,000	581,000
Corporate tax paid	-	65,000

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

*For the year ended July 31, 2005*

**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.

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

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

**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, 2005*

**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.

**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. During the July 31, 2005 fiscal year \$952,000 has been received for the July 31, 2003 program year. Subsequent to July 31, 2005 an additional \$203,000 has been received for the July 31, 2003 program year. This amount will be reported as revenue in the July 31, 2006 fiscal year. The Company may be eligible for additional assistance for the July 31, 2004 and July 31, 2005 program years.

**Revenue Recognition**

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

**Use of Estimates**

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

**3. Inventory**

	<b>2005</b>	2004
Cattle	<b>8,865,000</b>	8,353,000
Feedstocks	<b>1,038,000</b>	1,226,000
Ethanol	<b>332,000</b>	490,000
Supplies	<b>390,000</b>	431,000
	<b>10,625,000</b>	10,500,000

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

*For the year ended July 31, 2005*

**4. Property, Plant And Equipment**

			2005	2004
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value
Land	-	283,000	-	283,000
Office, feedlot and feedlot equipment	4%-10%	4,919,000	2,811,000	2,230,000
Feedmill	6.67%	1,063,000	832,000	295,000
Ethanol plant and processing equipment	5%-10%	12,729,000	9,155,000	4,101,000
Automotive equipment	20%	1,763,000	1,216,000	416,000
		<b>20,757,000</b>	<b>14,014,000</b>	<b>6,743,000</b>
				7,325,000

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

	2005	2004
Start-up costs	243,000	243,000
Organizational costs	138,000	138,000
	<b>381,000</b>	381,000
Accumulated amortization	265,000	246,000
Net book value	<b>116,000</b>	135,000

**6. Bank Indebtedness**

	2005	2004
Cash account, less outstanding cheques	-	1,038,000
Operating loan	-	1,980,000
	-	3,018,000

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 July 31, 2005 the Company was in compliance with its covenants and it is management's view that the Company will not violate covenants at future compliance dates within one year of the balance sheet date.

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

*For the year ended July 31, 2005*

<b>7. Long-term Debt</b>	<b>2005</b>	<b>2004</b>
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.	<b>768,000</b>	1,096,000
Farm Credit Canada loan #1 - repayable in monthly instalments of \$34,000 including interest at FCC's closed variable mortgage rate less 0.6% (4.65% at July 31, 2005; 4.15% at July 31, 2004). The loan matures August 1, 2012.	<b>2,753,000</b>	3,000,000
Farm Credit Canada loan #2 - repayable in monthly instalments of \$34,000 including interest at FCC's closed variable mortgage rate less 0.6% (4.65% at July 31, 2005; 4.15% at July 31, 2004). The loan matures August 1, 2012.	<b>2,753,000</b>	3,000,000
	<b>6,274,000</b>	7,096,000
Less current portion	<b>891,000</b>	842,000
	<b>5,383,000</b>	6,254,000

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 fiscal year July 31, 2004, 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 recommenced on September 1, 2004

The terms of the FCC loans require that certain measurable covenants be met. At July 31, 2005 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:

2006	\$ 891,000
2007	927,000
2008	696,000
2009	640,000
2010	670,000

**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.

During 2005, the company received the requisite approvals from third party lenders and, as a result, repaid the \$312,000 of subordinated shareholders' loans outstanding as of July 31, 2004.

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2005

**9. Share Capital**

	2005	2004
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, 2004 and 2005)	<b>1,443,000</b>	1,443,000
	<b>1,443,000</b>	1,443,000

**10. Contributed Surplus**

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

**11. Cost of Goods Sold**

	2005	2004
Cattle	<b>16,905,000</b>	26,708,000
Feedstocks	<b>10,883,000</b>	14,561,000
Production costs	<b>3,691,000</b>	3,446,000
Interest	<b>210,000</b>	514,000
	<b>31,689,000</b>	45,229,000

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2005

**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:

	2005	2004
Timing differences related to cash reporting for income taxes (current)	2,674,000	1,608,000
Non-capital losses being carried forward (long-term)	-	(115,000)
Timing differences related to property, plant and equipment (long-term)	1,010,000	1,146,000
Valuation allowance	-	27,000
Future income tax liabilities	3,684,000	2,666,000

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

	2005	2004
Earnings (loss) before income taxes for the year	4,709,000	(618,000)
Expected tax expense (recovery) at 39.1% (2004 – 39.1%)	1,839,000	(242,000)
Increase (decrease) in expense due to:		
Manufacturing and processing credit	(217,000)	28,000
Rate changes and other	15,000	36,000
Income tax expense	1,637,000	(178,000)

**13. Earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year of 643,000 (2004 – 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.

**Pound-Maker Investments Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended July 31, 2005

**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 the Company. 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.

**16. Commitments**

The sale of fuel grade ethanol is governed by the terms of an agreement established between the Company and Husky Oil. Terms related to the pricing formula and annual volumes are subject to negotiation annually. The contract expires March 31, 2006.

**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 45% (2004 - 40%) of outstanding accounts receivable. Receivables related to the oil industry represent approximately 53% (2004 - 42%) 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 0% (2004 - 9%) 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*

	<u>2005</u>		<u>2004</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Receivables	3,005,000	3,005,000	2,746,000	2,746,000
Bank indebtedness	-	-	3,018,000	3,018,000
Accounts payable	1,675,000	1,675,000	1,798,000	1,798,000
Long-term debt	6,274,000	6,194,000	7,096,000	7,015,000

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

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

**18. Changes in Accounting Policies**

Effective August 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants' recommendations for Impairment of Long-Lived Assets. Pursuant to these recommendations, the change was applied prospectively, and prior periods have not been restated.

Previously, the Company recorded long-lived assets at cost, less any provision needed to write down the assets to their net recoverable amount based on undiscounted estimated future net cash flows. Under the new recommendations, long-lived assets held for use are recorded at the lower of their carrying amount and fair value as described in Note 2 Significant Accounting Policies – Property, plant and equipment.

Upon adoption of the new recommendations, the Company evaluated its long-lived assets and determined that no impairment existed that had a material effect on the financial statements.

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Financial</b>					
Sales revenue	\$40,498,000	\$47,859,000	\$45,048,000	\$56,621,000	\$69,772,000
Net earnings (loss)	\$3,072,000	(\$463,000)	(\$340,000)	(\$2,111,000)	\$1,160,000
Net earnings (loss) per share	\$4.78	(\$0.72)	(\$0.53)	(\$3.28)	\$1.80
Long-term debt	\$6,274,000	\$7,096,000	\$7,457,000	\$8,230,000	\$5,313,000
Net working capital (excluding future income taxes)	\$11,275,000	\$7,767,000	\$8,014,000	\$8,681,000	\$10,565,000
Total assets	\$21,278,000	\$20,885,000	\$29,517,000	\$26,927,000	\$33,190,000
Shareholder's equity end of year	\$9,067,000	\$5,995,000	\$6,458,000	\$6,798,000	\$8,548,000
Shareholder's equity per share end of year	\$14.10	\$9.32	\$10.04	\$10.57	\$13.29
<b>Operational</b>					
Number of cattle marketed					
Company	24,261	30,787	24,000	37,241	47,905
Custom	<u>18,841</u>	<u>15,279</u>	<u>10,895</u>	<u>11,545</u>	<u>7,226</u>
Total	<u>43,102</u>	<u>46,066</u>	<u>34,895</u>	<u>48,786</u>	<u>55,131</u>
Litres of fuel ethanol Produced	<u>11,572,483</u>	<u>11,634,211</u>	<u>11,781,000</u>	<u>11,232,000</u>	<u>12,696,000</u>
Tonnes of feedstock consumed:					
Barley	60,657	61,761	65,163	59,246	69,384
Forages	24,863	22,864	22,866	24,563	22,434
Ethanol grain feedstocks	<u>33,394</u>	<u>32,368</u>	<u>32,107</u>	<u>30,336</u>	<u>34,753</u>
Total	<u>118,914</u>	<u>116,993</u>	<u>120,136</u>	<u>124,145</u>	<u>126,571</u>