

# GINGER BEEF CORPORATION

## Management's Discussion and Analysis

For the year ended December 31, 2005

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Ginger Beef Corporation for the year ended December 31, 2005. The information is current to April 25, 2006. The result from fiscal year 2005 have been compared to those of 2004. The discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2005 and 2004, together with the accompanying notes, and the December 31, 2004 MD&A. These documents and additional information about Ginger Beef Corporation are available on SEDAR at [www.sedar.com](http://www.sedar.com). This discussion and analysis may contain forward-looking statements about the Corporation's future prospects, and the Corporation provides no assurance that actual results will meet management's expectations.

### Description of business

The Corporation was incorporated under the Business Corporation Act (Alberta) on April 26, 2000 and was listed on the Canadian Venture Exchange ("CVE") effective June 1, 2001 as a Capital pool Company ("CPC") and has continued on the TSX Venture Exchange.

On September 13, 2002, the Corporation changed its name to Ginger Beef Corporation and completed its Qualifying Transaction to acquire all of the outstanding shares of Ginger Beef Express Ltd. ("Express"). The transaction and the name change were accepted by TSXV and effective September 27, 2002 at the opening, the common shares of the Corporation commenced trading on the TSXV and the common share of AVIC Technologies Inc. delisted. As a result of the acquisition of Express, the transaction has been accounted for as a reverse takeover with Express being the acquiring company since the original Express shareholders now own the majority of shares in the Corporation. In accordance with reverse takeover accounting, the financial statements are a continuation of Express in that the capital structure reflects that of the Corporation and the stated value of the share capital is that of Express.

Ginger Beef Corporation (the "Corporation") is a food company based in Calgary, Alberta. Through two wholly owned subsidiaries, Ginger Beef Express Ltd., ("Express") and Ginger Beef Choice Ltd., ("Choice"), Express oversees a number of franchised take out/delivery service restaurants in Alberta while Choice produces a number of frozen and ready to serve deli Chinese food products. After the modernization of its new facility in the winter of 2002, the Corporation has been certified and granted a license by the Canadian Food Inspection Agency. As a result, the Corporation is now able to ship its products, fresh or frozen, to all provinces in Canada.

The Corporation has been actively involved in product developments, both new products and product improvement, in order to increase its market share.

## **Discussion of Operations and Financial Condition**

For the year ended December 31, 2005, the Corporation had net earnings of \$244,430 as compared to \$468,275 for 2004. The respective net earnings and explanations of the year over year changes are broken down as follows:

- Wholesale revenue of \$7,346,898 in 2005 increased from \$5,375,511 in 2004. The 37% increase reflects constant increase in consumer demand for our products and orders from new customers.
- Gross margin from production is 21% for 2005 increased from 20% for 2004. Despite increases in fuel cost, cost of material and labour cost during 2005, the Corporation was able to keep the production costs in line with that of 2004.
- General and administrative expenses for 2005 increased substantially by \$219,004 or 35.7% over 2004. In 2005, three senior managements, namely, CEO; CFO and one of the working directors started drawing salaries amounted to \$161,656 comparing to \$56,650 for 2004. After deducting the senior management salary, the G & A expenses increased 21% when comparing with 2004 which is in line with the increase in wholesale revenue.
- Total interest expenses relating to long term debt and capital lease obligations of \$94,275 decreased from \$117,287 of 2004. Interest expenses will be increasing in the coming year as the Corporation continues implementing its plan towards mechanization of its production lines.
- Marketing and promotions expenses were \$48,721 for 2005 compared to \$34,523 in 2004,
- Draw down of the future tax asset of \$153,700 was recorded in 2005. While in 2004 the Corporation recorded a future tax benefit of \$227,000 recognizing the Corporation's accumulated losses to that date as stipulated by the Corporation's accounting policy and the Canadian generally accepted accounting principals. The recognition of the future tax assets in 2004 resulted in an additional income of \$227,000 while the draw down in 2005 reduced the Corporation's net income by \$153,700.
- Other revenue earned in 2005 consisted mainly of \$2,193 on the sale of the 2004 chicken quota allotment and \$4,192 assistance from the Market Technology Program administered by the Food Beverage Canada.

## **Financings**

On March 17, 2005 the Corporation received a loan from Farm Credit Canada ("FCC") in the amount of \$27,675 with an interest rate of 7.5% compounded monthly. The loan has a 36 months repayment term secured by the specific equipment purchased with the loan proceeds.

On July 27, 2005, the Corporation received approval of a loan from FCC in the amount of \$74,000 with an interest rate of 6.75% compounded monthly. The loan has a 48 month repayment term secured by the specific equipment purchased with the loan proceeds. A total of \$52,430 has been drawn from this loan for purchasing of equipment.

## **Liquidity and solvency**

As at December 31, 2005, the Corporation has working capital of \$325,903 which management believes is sufficient to enable the Corporation to meet its ongoing obligations as they come due. Management has been actively exploring various avenues in obtaining additional financing for cash flow purposes to prepare for the added requirements when the anticipated new purchase orders start rolling in.

**Investor relations**

The Corporation is currently in search of an agent that would act as investor relations.

**Related parties transactions**

All transactions with related parties during the period are all considered to be in the normal course of business at regular rates and terms. Please refer to Note 12 in the Audited Financial statements for the year ended December 31, 2005.

**Changes in Accounting Policy**

There were no changes in Accounting Policy during the year. In 2003, the Corporation adopted the amended recommendations of Section 3870 prospectively which requires the expensing of all stock-based payment for employees as well as non-employees. This recommendation was adopted effective January 1, 2003 and is applied to awards granted on or after the date of adoption.

**Critical accounting estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAPP”) requires the Corporation to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet dates, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is acquired, and are subject to change.

The Corporation follows accounting guidelines in determining the value of stock-based compensation, as disclosed in 14 of the audited financial statements for the year ended December 31, 2004. This calculated amount is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make several assumptions as to future events: 1) estimate the average future hold period of issued stock options before exercise, expiry or cancellation; 2) future volatility of the Corporation’s share price in the expected hold period (using historical volatility as a reference); 3) and the appropriate risk free rate of interest. The resulting value is not necessarily the value which the holder of the option could receive in an arm’s length transaction, given that there is no market for the options and they are not transferable. It is management’s view that the value derived is highly subjective and dependent entirely on the input assumptions made.

In calculating amortization expense, the Corporation makes estimates about the expected future life of capital assets. These estimates may be revised as new information is obtained.

**Chicken Tariff Rate Quota**

Chicken tariff rate quota for 2004 had been assigned to the Corporation for use in 2005. The Corporation sold its Non-import Control List (white meat) allocation to a third party for \$2,193 during the quarter.

## Outlook

Ginger Beef will continue to focus on reducing its cost of production and to continue its effort to penetrate the larger Eastern Canadian market in 2006 and for potential new business.

## Selected annual information

	2005	2004	2003
Wholesale revenue	\$7,346,898	\$ 5,375,551	\$ 3,827,673
Gross margin	21%	20%	22%
Income/(loss) before income taxes	398,130	241,275	(87,524)
Net income/(loss)	244,430	468,275	(87,524)
Basic and diluted loss per share	0.02	0.03	(0.01)
Total assets	3,615,648	3,377,752	2,847,415
Total long-term financial liabilities	1,117,759	1,269,279	1,117,203

## Summary of quarterly results

	Net earnings (Net loss)	Basic & diluted earning (loss) per share
A4 2005	115,736	0.007
Q3 2005	33,818	0.002
Q2 2005	48,889	0.003
Q1 2005	45,987	0.003
Q4 2004	404,363	0.030
Q3.2004	105,407	0.010
Q2 2004	(64,462)	-
Q1 2004	22,967	-
Q4 2003	136,356	0.010
Q3 2003	23,128	-
Q2 2003	(45,884)	-
Q1 2003	(201,124)	(0.01)
Q42002	(284,569)	(0.02)
Q3 2002	(81,601)	(0.01)
Q2 2002	(21,151)	-
Q1 2002	(22,103)	-

## Forward-looking information

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Corporation to implement its strategic initiatives, government and regulatory decisions, plant availability, competitive factors in the food industry and the prevailing economic conditions in Canada. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “project”, “predict”, “potential”, “could”, “might”, “should” and other similar expressions. The Corporation believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. The forward-looking statements speak only to the date of the MD&A. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.