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**GINGER BEEF CORPORATION**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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**GINGER BEEF CORPORATION**

**DECEMBER 31, 2004**

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## MANAGEMENT REPORT

The accompanying financial statements of Ginger Beef Corporation have been prepared by Management, who have full responsibility for them, and have been approved by the Board of Directors. The statements reflect the results for the year ended December 31, 2004 and the financial status of the Corporation as at that date.

Management's responsibility includes ensuring that the financial statements are presented in accordance with Canadian generally accepted accounting principles and that the appropriate systems of internal control are in place to provide reasonable assurance as to the reliability of the financial information, as well as the safety of all the Corporation's assets. The Board of Directors' approval of the financial statements and related information is delegated to an audit committee made up of members of the Board of Directors. It is the audit committee's responsibility to review the financial statements and annual report and recommend them to the other Board of Directors for approval. The committee meets periodically with management and the external auditors to review internal controls, audit results and accounting principles and practices.

These financial statements have been examined by the Corporation's auditors, Maldaner Crooks Watson Chartered Accountants, whose report is presented separately. Concurrent with their examination, the auditors had full access to all matters pertaining to the financial presentation and internal controls, unlimited access to the audit committee, as well as other related issues.

Calgary, Alberta  
April 20, 2005

**(Signed): S. Leung**  
**President**

# **MALDANER CROOKS WATSON**

Chartered Accountants

## **AUDITORS' REPORT**

To the Shareholders of:  
Ginger Beef Corporation

We have audited the consolidated balance sheets of Ginger Beef Corporation as at December 31, 2004 and 2003 and the consolidated statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Corporation as at December 31, 2004 and 2003 and the results of its operations and the cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
April 20, 2005

**(Signed) Maldaner Crooks Watson**  
**CHARTERED ACCOUNTANTS**

**GINGER BEEF CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2004	2003
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 141,636	\$ -
Accounts receivable	291,812	280,992
Grant receivable (Note 3)	38,579	-
Inventory	286,490	158,219
Prepays and deposits	17,828	14,609
GST recoverable	39,733	30,041
Due from related parties (Note 4)	63,921	9,645
	879,999	493,506
<b>PROPERTY, PLANT AND EQUIPMENT</b> (Note 5)	2,127,635	2,202,327
<b>TRADEMARKS</b> (Note 6)	68,118	76,582
<b>FUTURE TAX ASSET</b> (Note 7)	227,000	-
<b>GOODWILL</b> (Note 8)	75,000	75,000
	\$ 3,377,752	\$ 2,847,415
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness (Note 9)	\$ -	\$ 136,439
Accounts payable and accrued liabilities	645,957	544,251
Due to shareholder (Note 10)	-	85,000
Due to related party (Note 4)	-	65,000
Current portion of long term liabilities (Note 11)	145,896	90,517
Current portion of capital lease obligations (Note 12)	53,263	66,023
	845,116	987,230
<b>LONG TERM DEBT</b> (Note 11)	1,151,072	945,733
<b>CAPITAL LEASE OBLIGATIONS</b> (Note 12)	118,207	171,470
	2,114,395	2,104,433
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 13)	1,531,351	1,479,251
<b>CONTRIBUTED SURPLUS</b> (Note 14)	12,000	12,000
<b>DEFICIT</b>	(279,994)	(748,269)
	1,263,357	742,982
	\$ 3,377,752	\$ 2,847,415

**APPROVED ON BEHALF OF THE BOARD:**

**(Signed) S. Leung Director**

**(Signed) M. Poon Director**

See accompanying notes to consolidated financial statements

**GINGER BEEF CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT**  
**FOR THE YEAR ENDED DECEMBER 31**

	2004	2003
<b>WHOLESALE REVENUE</b> (Note 4)	\$ 5,375,551	\$ 3,827,673
<b>COST OF GOODS SOLD</b>	4,290,128	3,044,281
<b>GROSS PROFIT</b>	1,085,423	783,392
<b>FRANCHISE REVENUE</b> (Note 4)	37,273	34,978
<b>GOVERNMENT GRANT</b> (Note 3)	45,420	-
<b>OTHER REVENUE</b>	46,650	27,256
	1,214,766	845,626
<b>EXPENSES</b>		
General and administrative	612,147	550,782
Interest on capital lease obligations	22,848	30,614
Interest on long term debt	94,439	78,001
Marketing and promotion	34,523	57,900
Amortization of intangibles	8,464	8,464
Amortization of tangibles	201,070	207,389
	973,491	933,150
<b>NET INCOME (LOSS) BEFORE INCOME TAX</b>	241,275	(87,524)
<b>INCOME TAX (RECOVERY)</b> (Note 7)	(227,000)	-
<b>NET INCOME (LOSS)</b>	468,275	(87,524)
<b>DEFICIT, BEGINNING OF YEAR</b>	(748,269)	(660,745)
<b>DEFICIT, END OF YEAR</b>	\$ (279,994)	\$ (748,269)
<b>EARNINGS (LOSS) PER SHARE:</b>		
<b>BASIC</b>	\$ 0.03	\$ (0.01)
<b>DILUTED</b>	\$ 0.03	\$ (0.01)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		
<b>BASIC</b>	14,615,835	14,268,761
<b>DILUTED</b>	15,168,276	NA

See accompanying notes to consolidated financial statements

**GINGER BEEF CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31**

	2004	2003
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 468,275	\$ (87,524)
<b>Items not requiring an outlay of cash:</b>		
Amortization	209,534	215,853
Future income taxes	(227,000)	-
Stock-based compensation	-	12,000
	450,809	140,329
<b>CHANGES IN NON-CASH WORKING CAPITAL</b>		
Increase (decrease) in accounts payable and accrued liabilities	101,706	(167,278)
(Increase) in inventories	(128,271)	(18,592)
Decrease (Increase) in prepaid expenses	(3,219)	6,843
(Increase) in accounts receivable	(49,399)	(239,300)
Decrease (increase) in GST recoverable	(9,692)	20,980
	(88,875)	(397,347)
	361,934	(257,018)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share capital issuance	52,100	424,550
Share subscription in advance	-	(100,000)
Repayment of long-term debt	(139,282)	(83,806)
Increase in long-term debt	400,000	80,270
Capital lease payments	(66,023)	(61,419)
Advances (to) from related parties	(119,276)	85,919
Advances (to) from shareholder	(85,000)	85,000
	42,519	430,514
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(126,378)	(194,313)
<b>NET INCREASE (DECREASE) IN CASH AND CASH DEFICIENCY</b>		
	278,075	(20,817)
<b>NET CASH AND CASH (DEFICIENCY), BEGINNING OF YEAR</b>		
	(136,439)	(115,622)
<b>NET CASH AND CASH EQUIVALENTS (DEFICIENCY), END OF YEAR</b>		
	\$ 141,636	\$ (136,439)
<b>CONSISTING OF:</b>		
Cash	\$ 141,636	\$ -
Bank Indebtedness	-	(136,439)
	\$ 141,636	\$ (136,439)
<b>SUPPLEMENTAL INFORMATION:</b>		
<b>INTEREST PAID</b>	\$ 117,287	\$ 108,615
<b>INCOME TAXES PAID</b>	\$ -	\$ -

See accompanying notes to consolidated financial statements

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 1. NATURE OF OPERATIONS

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 ("TSXV").

The Corporation's operations include Ginger Beef Express Ltd. ("Express") and its wholly owned subsidiary Ginger Beef Choice Ltd. ("Choice"). Express is a franchiser of Chinese food restaurants primarily in Calgary and the holding company for Choice, a manufacturer of fresh and frozen Chinese food items for wholesalers primarily in Western Canada. Choice was incorporated under the *Business Corporations Act (Alberta)* on July 22, 1998. Choice derived 73% (2003 - 81%) of its revenue from its three largest customers.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following accounting policies.

(a) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Building	- 4% straight line
Leaseholds	- 20% straight line
Machinery, equipment, furniture and fixtures	- 20% diminishing balance
Equipment under capital lease	- 20% diminishing balance
Automotive	30% diminishing balance

(b) Trademarks

These are evaluated annually for impairment and are being amortized at 5% on a straight line basis.

(c) Leases

Equipment under lease, which transfers substantially all of the benefits and risks of ownership to the Corporation, are accounted for as capital leases. All other leases are accounted for as operating leases and accordingly rental payments are expensed in the period they are incurred.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined based on raw materials plus cost of manufacture that includes an overhead allocation.

(e) Revenue recognition

Manufactured food revenues are recognized when shipped to customers. Initial franchise fees are recognised as income when the agreement is signed and the funds received. Franchise royalties are recognised as earned on a monthly basis.

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Future income taxes

Income taxes are calculated using the liability method of tax allocation accounting. Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

(g) Accounting estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of future tax assets, the valuation of trademarks, the remaining useful lives of assets for amortization, the allowance for doubtful accounts, the amounts recorded as accrued liabilities and stock-based compensation.

(h) Stock-based compensation

Effective January 1, 2003, the Corporation adopted the amended recommendations of Section 3870 prospectively which requires the expensing of all stock-based payments for employees as well as non-employees. Under this method, compensation expense related to these programs is recorded in the Statement of Income and Deficit with a corresponding increase to contributed surplus. The fair value of options granted are determined at the date of grant using the Modified Black-Scholes valuation model. Consideration paid by employees, officers and directors on the exercise of stock options is credited to share capital.

(i) Long lived assets impairment

Long-term assets are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows expected to be generated by the assets. If impairment is deemed to exist, the assets will be written down to their fair value. Fair value is generally determined using a discounted cash flow analysis.

(j) Earnings Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 3. GOVERNMENT GRANTS

During the year, the Corporation conducted activities for which it received grant assistance from the Alberta Government under the Beef Product and Market Development Program. This assistance helped support the Corporation's project to produce, package, and market a new frozen entree product incorporating meat from over 30-month-old cattle.

The grant was conditional upon completion of the project and receipt by March 15, 2005, of an adequately supported claim and a satisfactory evaluation of the completed project's success in achieving the objectives of the Beef Product and Market Development Program.

The Corporation completed activities for which grant proceeds in the amount of \$45,420 was received or receivable for the current year and \$1,700 in 2005. At December 31, 2004 \$38,579 of these proceeds are included in accounts receivable.

### 4. RELATED PARTY TRANSACTIONS

Given the nature of the company's activities there are numerous transactions with related parties. These include product costs, sharing of promotional costs, product sales and franchise fees received from franchisees according to terms outlined in the individual franchise agreements signed with each franchisee. These are all considered to be in the normal course of business and were recorded at the exchange amount used by the Corporation under normal business terms.

During the year, the Corporation's revenues included product sales to the following:

	<u>2004</u>	<u>2003</u>
Related franchisees	\$ 11,343	\$ 12,562
Companies controlled by relatives of an officer and director	\$ 234,831	\$ 114,395

The amounts due from/(to) related parties as at December 31 are as follows:

	<u>2004</u>	<u>2003</u>
360181 Alberta Corp (360181), a company controlled by an officer and director of the Corporation	\$ 5,166	\$ 5,166
Y. Leung *	-	(65,000)
Franchise amounts receivable	<u>58,755</u>	<u>4,479</u>
Due to related party	<u>-</u>	<u>65,000</u>
Due from related parties	\$ <u>63,921</u>	\$ <u>9,645</u>

\* This advance, from the father of the president, Mr. S. Leung, was repaid during the year.

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 5. PROPERTY, PLANT AND EQUIPMENT

	<u>Cost</u>	<u>2004 Amortization</u>	<u>Net</u>
Land	\$ 140,000	\$ -	\$ 140,000
Buildings	1,527,965	133,620	1,394,345
Machinery, equipment, furniture and fixtures	769,503	353,755	415,748
Equipment under capital lease	307,231	130,266	176,965
Leasehold improvements	<u>28,999</u>	<u>28,422</u>	<u>577</u>
	<u>\$ 2,773,698</u>	<u>\$ 646,063</u>	<u>\$ 2,127,635</u>

	<u>Cost</u>	<u>2003 Amortization</u>	<u>Net</u>
Land	\$ 140,000	\$ -	\$ 140,000
Buildings	1,514,206	72,776	1,441,430
Machinery, equipment, furniture and fixtures	656,884	258,346	398,538
Equipment under capital lease	307,231	86,025	221,206
Leasehold improvements	<u>28,999</u>	<u>27,846</u>	<u>1,153</u>
	<u>\$ 2,647,320</u>	<u>\$ 444,993</u>	<u>\$ 2,202,327</u>

There were no long lived asset impairment adjustments to property, plant and equipment for the years ended 2004 and 2003. Encumbrances to property, plant and equipment are detailed in Note 11.

### 6. TRADEMARKS

	<u>Cost</u>	<u>2004 Amortization</u>	<u>Net</u>
Trademarks	<u>\$ 169,304</u>	<u>\$ 101,186</u>	<u>\$ 68,118</u>

	<u>Cost</u>	<u>2003 Amortization</u>	<u>Net</u>
Trademarks	<u>\$ 169,304</u>	<u>\$ 92,722</u>	<u>\$ 76,582</u>

These represent costs of \$150,000 incurred in 1993 to assign the "Ginger Beef" Trademarks from Ginger Beef Peking House Restaurant Ltd. ("GB Peking House"), a company owned by a shareholder and a director. The remainder primarily relates to legal costs incurred to effect the assignment and register franchise agreements.

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 7. INCOME TAXES

#### (a) Income taxes

The future tax assets and liabilities results from differences between the tax value and book value of the following items:

	<b>2004</b>	<b>2003</b>
<b>Future tax asset:</b>		
Property plant and equipment	\$ (35,900)	\$ (19,800)
Trademarks	(5,600)	(7,200)
Share issue expenses	12,800	18,000
Unused operating losses	255,700	319,500
	\$ 227,000	\$ 310,500
Valuation allowance	-	(310,500)
	\$ 227,000	\$ -

Income taxes included in the statement of income are as follows:

	<b>2004</b>	<b>2003</b>
Current	\$ -	\$ -
Future		
Creation and reversal of temporary differences	28,900	(30,021)
Change in rate	1,700	-
Increase in valuation allowance	-	30,021
(Recognition) non recognition of operating losses	(257,600)	-
	(227,000)	-
Income tax (recovery)	\$ (227,000)	\$ -

The Corporation's effective income tax rate differs from the combined statutory federal and provincial income tax rate in Canada (33.9% for 2004 and 34.3% for 2003). This difference arises from the following:

	<b>2004</b>	<b>2003</b>
Income taxes at statutory rates	\$ 81,800	\$ (30,021)
Change in rate	1,700	-
Change in valuation allowance	-	30,021
Recognition of prior year losses and temporary differences	(310,500)	-
	\$ (227,000)	\$ -

#### (b) Loss carry forwards

Losses carried forward of \$760,800 in aggregate are available to offset future years taxable income in Canada.

2007	\$ 16,891
2008	79,145
2009	507,012
2010	155,251
2011	2,501
	\$ 760,800

The future tax benefit of these losses are included in the future tax asset.

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 8. GOODWILL

Goodwill arose on the reverse takeover of Ginger Beef Corporation (formerly AVIC Technologies Inc.) by Express in 2002 and relates to the value attributable to the public company listing. This is reviewed annually for impairment compared to the net recoverable amount.

### 9. BANK INDEBTEDNESS

	<u>2004</u>	<u>2003</u>
Cheques in excess of bank balance	\$ -	\$ 16,439
Demand operating loan	<u>-</u>	<u>120,000</u>
	<u>\$ -</u>	<u>\$ 136,439</u>

The bank demand operating loan is a revolving line of credit with the Royal Bank of Canada with interest at 2.5% above prime to a maximum of \$200,000 secured by a general security agreement, guarantee and postponement of claim signed by Stanley Leung, Steven Leung and 360181 Alberta Corporation, and business loan insurance plan application signed by Stanley Leung and Steven Leung.

### 10. DUE TO SHAREHOLDER

The amount due to shareholder, \$nil (2003 - \$85,000) is unsecured, non-interest bearing and has no specific terms of repayment.

### 11. LONG TERM DEBT

	<u>2004</u>	<u>2003</u>
Mortgage payable (maturing July 2017) with Agricultural Financial Services bearing interest at 7.5% per annum, repayable in blended monthly installments of \$8,674.30 and secured by building and land with a net book value of \$1,534,345	\$ 857,381	\$ 897,678
Government guaranteed bank loan with Royal Bank of Canada at the bank's prime lending rate plus 3% repayable in monthly installments of \$2,235 plus interest, maturing September 2005 and secured by a general security agreement covering all assets of the business.	18,123	44,943
Government guaranteed bank loan with Royal Bank of Canada at the bank's prime lending rate plus 2.5% repayable in monthly installments of \$1,950 plus interest, maturing February 2008 and secured by equipment with a net book value of approximately \$100,000	70,229	93,629
Loan with Agricultural Financial Services bearing interest at 5% per annum, repayable in blended monthly payments of \$6,422, maturing in February 2009, secured by building and land with a net book value of \$1,534,345.	351,235	-
	<u>1,296,968</u>	<u>1,036,250</u>
Less: current portion	<u>145,896</u>	<u>90,517</u>
	<u>\$ 1,151,072</u>	<u>\$ 945,733</u>

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 11. LONG TERM DEBT (continued)

Estimated aggregate principal repayments required as at December 31, 2004 are as follows:

2005	\$	145,896
2006		134,097
2007		140,867
2008		124,602
2009 and subsequent		<u>751,506</u>
	\$	<u>1,296,968</u>

### 12. CAPITAL LEASE OBLIGATIONS

Obligations under capital leases have interest rates varying from 10.6% to 17.9%, payable in monthly installments totaling \$7,692, and maturing on various dates until 2007.

The installments on obligations under capital leases are as follows:

	2005	69,343
	2006	73,419
	2007	<u>56,839</u>
		199,601
Less: interest portion		<u>28,131</u>
		171,470
Less: current portion		<u>53,263</u>
		<u>\$118,207</u>

### 13. SHARE CAPITAL

#### Authorized

Unlimited number of common shares

#### Issued

	<u>2004</u>		<u>2003</u>	
	Number of Shares	\$	Number of Shares	\$
Balance, January 1	14,427,725	\$ 1,479,251	13,012,558	\$1,054,701
Private placement	-	-	1,415,167	424,550
Options exercised for cash - GB Corp shares	250,000	52,100	-	-
Balance, December 31	14,677,725	\$ 1,531,351	14,427,725	\$1,479,251

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 13. SHARE CAPITAL (continued)

During the year, the Corporation issued common shares for options that were exercised, 210,000 for \$0.21 and 40,000 for \$0.20.

As at December 31, 2004, 6,858,083 shares were held in escrow and 857,260 of these shares will be released from escrow every six months beginning March 27, 2005.

During the year the following changes in options occurred:

	<u>2004</u>		<u>2003</u>	
	Number	Weighted Average Price	Number	Weighted Average Price
Outstanding at beginning of year	1,442,772	\$ 0.21	1,250,000	\$ 0.49 *
Exercised	(250,000)	\$ 0.21	-	\$ -
Granted	125,000	\$ 0.20	192,772	\$ 0.21
Expired or surrendered	(210,000)	\$ 0.21	-	\$ -
Outstanding at end of year	1,107,772	\$ 0.21	1,442,772	\$ 0.21

The following options are outstanding:

	Number	Exercise Price	Expiry Date
Options	50,000	\$ 0.20	September 2005
Options *	865,000	\$ 0.21	September 2007
Options	192,772	\$ 0.21	April 2005
Total	1,107,772		

\* It was approved at the Corporation's Annual General Meeting held on April 1, 2003 that these stock option agreements be amended to a revised exercise price of \$0.21 per share reduced from \$0.50 per share.

### 14. STOCK-BASED COMPENSATION

Effective January 1, 2003, the Corporation adopted the amended recommendations of Section 3870 prospectively which requires the expensing of all stock-based payments for employees as well as non-employees.

Accordingly, a stock based compensation expense of \$nil (2003 - \$12,000) has been included in general and administrative expenses, and a corresponding amount has been credited to contributed surplus. In 2004, 125,000 options were issued, of these options 40,000 were exercised and 85,000 expired during the year. The fair value of each option granted in 2004 and 2003 was estimated at the date of grant using the Modified Black-Scholes option pricing model. There was no material stock based compensation for options issued in 2004. The following assumptions relate to options granted in 2003:

Risk-free interest rate	3.26%
Estimated hold period prior to exercise (years)	3
Volatility in the price of the Corporation's common shares	50%
Fair value per share	\$0.06

# GINGER BEEF CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

### 15. SUBSEQUENT EVENTS

- (a) Subsequent to year end, the Corporation received a loan from Agriculture Financial Services Corporation ("AFSC") in the amount of \$27,675 with an interest rate of 7.5% compounded monthly. The loan has a 36 month repayment term secured by the specific equipment purchased with the loan proceeds.
- (b) On April 9, 2005, 192,772 stock options at \$0.21 were exercised by employees of the Corporation. Proceeds to the Corporation totaled \$40,482.

### 16. FINANCIAL INSTRUMENTS

- (a) Fair value of financial instruments  
The fair value of cash, accounts receivable, grant receivable, due from related parties, accounts payable and accrued liabilities, corresponds to their carrying value due to their short-term maturity.
- (b) Credit risk  
The Corporation grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. A substantial portion of the Corporation's accounts receivable are concentrated in receivables from several of the Corporation's larger customers.
- (c) Currency risk  
The Corporation is exposed to limited foreign currency risk as most of the Corporation's activities are performed within Western Canada.

### 17. COMPARATIVES

Comparative numbers have been reclassified to conform with the current year' presentation.