

Ginger Beef Corporation

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Ginger Beef Corporation

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

CONTENTS

	<u>Page</u>
Consolidated Financial Statements	
Management's Report	1
Auditors' Report	2
Consolidated Balance Sheets	3
Consolidated Statements of Income and Deficit	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 - 14

Management's Report

Ginger Beef Corporation

The accompanying financial statements of Ginger Beef Corporation have been prepared by management, who have full responsibility for them, and which have been approved by the Board of Directors. The statements reflect the results of the year ended December 31, 2005 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 of 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.

April 20, 2006

(signed) S. Leung, President



Auditors' Report

To the shareholders of:
Ginger Beef Corporation

We have audited the consolidated balance sheets of Ginger Beef Corporation as at December 31, 2005 and 2004 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 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 Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta, Canada

April 20, 2006

(signed) Maldaner Crooks Watson

Chartered Accountants

Ginger Beef Corporation

Consolidated Balance Sheets as at December 31

	Note	2005	2004
Assets			
Current Assets			
Cash		\$ 382,092	\$ 141,636
Accounts receivable		437,583	330,391
Due from related parties	12.	35,725	63,921
Inventory		317,618	286,490
Prepays and deposits		52,207	17,828
Total Current Assets		1,225,225	840,266
Property, plant and equipment	3.	2,182,469	2,127,635
Trademarks	4.	59,654	68,118
Goodwill	5.	75,000	75,000
Future income tax asset	11.	73,300	227,000
Total Assets		\$ 3,615,648	\$ 3,338,019
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 684,365	\$ 606,224
Current portion of long term debt		161,602	145,896
Current portion of capital lease obligations		53,355	53,263
Total Current Liabilities		899,322	805,383
Long term debt	6.	1,063,313	1,151,072
Capital lease obligations	7.	54,446	118,207
Total Liabilities		2,017,081	2,074,662
Equity			
Share capital	9.	1,583,833	1,531,351
Contributed surplus	10.	50,300	12,000
Deficit		(35,566)	(279,994)
Total Equity		1,598,567	1,263,357
Total Liabilities & Equity		\$ 3,615,648	\$ 3,338,019

Approved on Behalf of the Board:

(signed) Stanley Leung, Director

(signed) Michael Poon, Director

The accompanying notes are an integral part of these financial statements.

Ginger Beef Corporation

Consolidated Statements of Income and Deficit

For the Years Ended December 31

	Note	2005	2004
Wholesale revenue		\$ 7,346,898	\$ 5,375,551
Cost of goods sold		5,804,301	4,290,128
Gross profit		1,542,597	1,085,423
Operating expenses			
General and administrative		831,151	612,147
Marketing and promotion		48,721	34,523
Interest on long term debt		78,195	94,439
Interest on capital lease obligations		16,080	22,848
Amortization of trademarks		8,464	8,464
Amortization of property, plant and equipment		207,261	201,070
Total operating expenses		1,189,872	973,491
Income from operations		352,725	111,932
Non operating income and expenses			
Gains (losses) on disposal		952	-
Franchise revenue		35,551	37,273
Other revenue		8,900	92,070
Total non operating income and expenses		45,403	129,343
Income before income taxes		398,128	241,275
Future income taxes		153,700	(227,000)
Net Income		244,428	468,275
Deficit - beginning of year		(279,994)	(748,269)
Deficit - end of year		\$ (35,566)	\$ (279,994)
Earnings per share:			
Basic		\$ 0.02	\$ 0.03
Diluted		\$ 0.02	\$ 0.03

The accompanying notes are an integral part of these financial statements.

Ginger Beef Corporation

Consolidated Statements of Cash Flows

For the Years Ended December 31

	Note	2005	2004
Cash flow from (used in) operating activities			
Net income		\$ 244,430	\$ 468,275
Amortization		215,725	209,534
Stock based compensation		50,300	-
Future income taxes		153,700	(227,000)
Gain on sale		(952)	-
		663,203	450,809
Changes in non-cash working capital balances			
Accounts receivable		(107,192)	(49,399)
Inventories		(31,128)	(128,271)
Accounts payable and accrued liabilities		78,139	92,014
Prepays and deposits		(34,379)	(3,219)
		568,643	361,934
Cash flows from (used in) investing activities			
Property, plant and equipment additions		(266,643)	(126,378)
Proceeds on disposition of property, plant and equipment		5,500	-
		(261,143)	(126,378)
Cash flows from (used in) financing activities			
Proceeds on issuance of shares		40,482	52,100
Repayment of long term debt		(152,158)	(139,282)
Increase in long term debt		80,105	400,000
Capital lease payments		(63,669)	(66,023)
Advances (to) from related parties		28,196	(119,276)
Advances (to) from shareholder		-	(85,000)
		(67,044)	42,519
Net increase in cash and cash equivalents		240,456	278,075
Net cash and cash equivalents, beginning of year		141,636	(136,439)
Net cash and cash equivalents, end of year		\$ 382,092	\$ 141,636
Supplemental data:			
Interest paid		\$ 106,948	\$ 132,491
Income taxes paid		\$ -	\$ -

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

1. NATURE OF OPERATIONS

The Corporation was incorporated under the *Business Corporation Act (Alberta)* on April 26, 2000 and is listed on TSX Venture Exchange ("TSXV") under the symbol "GB".

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 located primarily in Calgary, and is 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 Corporation Act (Alberta)* on July 22, 1998. In 2005 Choice derived 73% of its revenue from its five largest customers (2004 - 73% from its three largest).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding years. Outlined below are those policies considered particularly significant.

b. Property, plant and equipment

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

Buildings	4% straight line
Leasehold Improvements	20% straight line
Machinery, equipment, furniture and fixtures	20% diminishing balance
Equipment under capital lease	20% diminishing balance

c. Trademarks

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

d. 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.

e. Inventory

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

f. Revenue recognition

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

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

2.. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g. Income tax method

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax liabilities and assets are measured using enacted tax rates. The effect on future income tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs. The amount of future tax assets recognized is limited to the amount that is more likely than not to be realized. Income tax expense for the period is the tax payable for the period and the change in future income tax assets and liabilities.

h. Measurement uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 and may have impact on future periods.

i. Stock-based compensation

The Corporation uses the fair value method of expensing 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 is 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.

j. Long lived impaired assets

In the event that facts and circumstances indicate that the Corporation's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. The Corporation considers that no circumstances exist that would require such an evaluation.

k. Earnings per share

Basic earnings per share is computed using the weighed average number of common shares outstanding during the year. Diluted earnings 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. The weighted average number of shares used in the earnings per share calculation is 14,818,210 (2004 - 14,615,835). Diluted weighted average numbers of shares are 14,818,210 (2004 - 15,168,276).

l. Fair values

The Corporation has determined that the estimated fair value of the financial assets and liabilities do not differ considerably from their book value.

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

			2005
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 140,000	\$ -	\$ 140,000
Buildings	1,572,941	(195,638)	1,377,303
Machinery, equipment, furniture & fixtures	983,227	(459,633)	523,594
Capital leases of equipment	307,231	(165,659)	141,572
Leasehold improvements	26,117	(26,117)	-
Total	\$ 3,029,516	\$ (847,047)	\$ 2,182,469

			2004
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 140,000	\$ -	\$ 140,000
Buildings	1,527,965	(133,620)	1,394,345
Machinery, equipment, furniture & fixtures	766,724	(350,976)	415,748
Capital leases of equipment	307,231	(130,266)	176,965
Leasehold improvements	26,694	(26,117)	577
Total	\$ 2,768,614	\$ (640,979)	\$ 2,127,635

4. TRADEMARKS

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Trademarks	\$ 169,304	\$ (109,650)	\$ 59,654	\$ 68,118

5. 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.

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

6. LONG TERM DEBT

Long term debt consists of the following:

	2005	2004
Mortgage payable (maturing 2017) with Agricultural Financial Services bearing interest at 7.5% per annum, repayable in blended monthly installments of \$8,674 and secured by building and land with a net book value of \$1,377,303	\$ 812,889	\$ 857,381
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 \$1,377,303.	289,989	351,235
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 \$100,000.	46,829	70,229
Farm Credit Canada loan bearing interest at 7.5% repayable in monthly installments of \$860 including interest, maturing in April 2008 and secured by equipment with a net book value of approximately \$29,600.	22,778	-
Farm Credit Canada loan bearing interest at 6.75% repayable in monthly installments of \$4,625 including interest, maturing in October 2008 and secured by equipment with a net book value of approximately \$51,500.	52,430	-
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 aspects of the business.	-	18,123
Total debt	1,224,915	1,296,968
Less: current portion	(161,602)	(145,896)
Long term portion of debt	\$ 1,063,313	\$ 1,151,072

Principal repayments on long term debt over the next five years are as follows:

2006	\$ 161,602
2007	169,045
2008	146,482
2009	133,002
2010 and subsequent	614,784
Total	\$ 1,224,915

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

7. CAPITAL LEASE OBLIGATIONS

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

The Corporation's obligation under capital leases consists of:

	2005	2004
Minimum lease payments payable	\$ 121,356	\$ 199,601
Less: Portion representing interest to be recorded over the remaining term of the leases	(13,555)	(28,131)
Total leases	107,801	171,470
Less: current portion	(53,355)	(53,263)
Long-term portion	\$ 54,446	\$ 118,207

Future minimum annual lease payments payable under the capital leases are as follows:

2006	\$ 61,963
2007	59,393
Total	\$ 121,356

8. BANK FACILITY

The Corporation has a demand operating revolving line of credit to a maximum of \$200,000 with the Royal Bank of Canada with interest at prime plus 1.75%, secured by a general security agreement. The balance on this facility as at December 31, 2005 was \$nil (2004 - \$nil).

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

9. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2005		2004	
	Number	Amount	Number	Amount
Balance, January 1	14,677,725	\$ 1,531,351	14,427,725	\$ 1,479,251
Options exercised for cash	192,772	40,482	250,000	52,100
Drawdown of contributed surplus	-	12,000	-	-
Balance, December 31	14,870,497	\$ 1,583,833	14,677,725	\$ 1,531,351

During the year the Corporation issued 192,772 common shares pursuant to the exercise of options at \$0.21 per share. Options outstanding at year end consisted of the following:

	2005		2004	
	Number	Weighted Average Price	Number	Weighted Average Price
Outstanding at beginning of year	1,107,772	\$ 0.21	1,442,772	\$ 0.21
Exercised	(192,772)	\$ 0.21	(250,000)	\$ 0.21
Granted	360,000	\$ 0.34	125,000	\$ 0.20
Expired or surrendered	(50,000)	\$ 0.20	(210,000)	\$ 0.21
Outstanding at end of year	<u>1,225,000</u>	<u>\$ 0.25</u>	<u>1,107,772</u>	<u>\$ 0.21</u>

The following options are outstanding at the year end:

Number	Exercise Price	Expiry
865,000	\$ 0.21	September 2007
360,000	\$ 0.34	January 2010
<u>1,225,000</u>		

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

10. STOCK-BASED COMPENSATION

In accordance with the Corporation's accounting policy a stock-based compensation expense of \$50,300 (2004 - \$nil) has been included in general and administrative expenses, and a corresponding amount has been credited to contributed surplus for options granted during the period. The fair value of the options granted was estimated using the Black Scholes option pricing model. The following assumptions were used to determine the fair value per share of \$0.14 (2004 - \$nil)

	<u>2005</u>
Risk free rate	3.08%
Estimated hold period prior to exercise (in years)	3
Volatility in price of common shares	64%

11. INCOME TAXES

a. Income taxes

Significant components of the Corporation's future tax assets are as follows:

	2005	2004
Property, plant and equipment	\$ (45,200)	\$ (35,900)
Trademarks	(4,000)	(5,600)
Share issue expenses	-	12,800
Unused operating losses	122,500	255,700
Total	73,300	227,000
Net future tax asset	\$ 73,300	\$ 227,000

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

11.. Income Tax

Income tax expense differs from the amounts which would be obtained by applying the statutory income tax rate to the respective years' earnings before taxes as follows:

	2005	2004
Statutory tax rate	33.62%	33.9%
Computed "expected" taxes	\$ 133,850	\$ 81,800
Increase (decrease) in tax resulting from:		
Change in rate	246	1,700
Recognition of prior year losses and temporary differences	-	(310,500)
Non-deductible costs	2,694	-
Stock-based compensation	16,910	-
Income tax expense (recovery)	\$ 153,700	\$ (227,000)

b. Income tax loss carryforward

The Corporation has losses of approximately \$363,800 (2004 - \$760,800) available to reduce future taxable income. These losses expire as follows:

2011	\$ 72,700
2012	184,900
2013	105,600
2014	600
Total	\$ 363,800

12. RELATED PARTY TRANSACTIONS

Transactions with related parties include product costs, sharing of promotional costs, product sales and franchise fees received from related franchisees according to terms outlined in the individual franchise agreements. These are considered to be in the normal course of business and were recorded at the exchange amount used by the Corporation under normal business terms.

Ginger Beef Corporation

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

12.. RELATED PARTY TRANSACTIONS

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

	2005	2004
Related franchisees	\$ 61,593	\$ 11,343
Companies controlled by relatives of an officer and director	\$ 69,663	\$ 234,831

These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

The amounts due from related parties at December 31 are as follows:

	2005	2004
360181 Alberta Corp., a company controlled by an officer and director of the Corporation	\$ 5,166	\$ 5,166
Franchise amounts receivable	30,559	58,755
Total	\$ 35,725	\$ 63,921

13. FINANCIAL INSTRUMENTS

Credit risk

A substantial portion of the Corporation's accounts receivable are with five major customers. Credit evaluations are performed on a regular basis and doubtful accounts are provided as for required on a specific account basis as estimated by management.

Fair value of financial instruments

The fair value of cash, accounts receivable, due from related parties, accounts payable and accrued liabilities, corresponds to their carrying value due to their short term maturity.