



# PERFECT FRY CORPORATION

First Quarter Ended January 31, 2005





## MANAGEMENT DISCUSSION AND ANALYSIS

### First Quarter

### Report for the Quarter Ended January 31, 2005

#### 1 Date

April 1, 2005

#### 2 Overall Performance

	2005Q1	2004	2003	2002	2001
Current Assets	1,737,435	\$1,609,728	\$1,573,787	\$1,681,254	\$1,684,928
Long Term Receivable	0	0	18,521	0	0
Property Plant & Equip	1,419,476	1,415,206	1,307,917	155,010	155,088
Patents & Processes	983,105	977,104	803,558	676,549	682,679
<b>Total Assets</b>	<b>4,140,016</b>	<b>4,002,038</b>	<b>3,703,783</b>	<b>2,512,813</b>	<b>2,522,695</b>
Current Liabilities	516,186	297,321	327,855	227,026	603,694
Long Term Liabilities	733,206	740,666	765,823	0	0
Shareholder Equity	2,890,624	2,964,051	2,610,105	2,285,787	1,919,001
<b>Total Liabilities &amp; Equity</b>	<b>4,140,016</b>	<b>4,002,038</b>	<b>3,703,783</b>	<b>2,512,813</b>	<b>2,522,695</b>

Founded in 1985, Perfect Fry manufactures and markets state-of-the-art counter-top products for the food equipment industry. Perfect Fry's markets now extend around the world and across the fast-food spectrum, specializing in popular, tasty, deep-fried foods at snack bars, food kiosks, sport and recreation facilities, concession stands and convenience stores.

Our primary product, the Perfect Fryer, is highly efficient, compact and requires no external ventilation systems. It incorporates the most advanced built-in air filtration and fire prevention systems available in the industry. Sales of the Perfect Fryer and its complementary products continue to grow in North and South America, Europe, Australia, Asia and the Middle East.

The food equipment industry has been relatively stable in its regulations and overall direction since about 1996. The industry is moving towards new and upgraded electronic and communication technologies, we are aware of these protocols and have implemented design changes for future needs. Perfect Fry has designed and controlled its own electronic advancements, enabling us to quickly meet the industry's ongoing requirements.

In the first quarter we began to see the increased prices coming through from the steel industry. The Company earlier pursued longer term purchasing which mitigated the risk of price increases. These longer term purchase orders have now terminated and the Company is experiencing higher steel prices.

The Company's investment in development continues to generate improvements that advance Perfect Fry's reputation for leadership, product quality and product variety. Last year we successfully tested a new fire suppression system that we are now implementing in all our PFC lines of fryers. Other fire suppression solutions, including off-the-shelf products, were inferior to our own specialized design. We continue to be the only manufacturer of this type of equipment to tackle the task and assume the responsibility of manufacturing our own fire suppression system. The new advancements are superior to even our original system and will enable future standardization of components for all models requiring fire suppression. The Perfect Fry fire suppression system is an approved separately identifiable product which could now be sold to other equipment manufacturers in our industry. While these investments are long-term we believe they are essential to enhancing the intrinsic value of the Company. In addition to innovations in current products, we continue to develop new and complementary products and accessories and to further diversify and grow our markets and revenue.

During the first quarter, Perfect Fry introduced on a limited scale a new product to our line of fryers with good initial results. We have orders pending on this new product which we are anticipating to fill in the second quarter.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT)

### First Quarter

#### Report for the Quarter Ended January 31, 2005

We are now in regular production of the PFM Heated Display Merchandiser. The PFM Merchandiser is a counter-top, two-tiered unit that holds prepared foods at consistent temperatures in an attractive, convection-heated display case. It can be adapted for either counter service or self-serve applications and is specifically designed to complement the Company's popular Perfect Fryer. Feedback from distributors and end-users alike continues to be positive.

Perfect Fry continues to operate with measured stability, building a strong foundation by steadily investing in all aspects of the company, including physical plant infrastructure, research and development, expanding product lines, international markets and internal processes and technology. Perfect Fry has not discontinued any part of its ongoing operations, nor do we have any major acquisitions planned in the future. Perfect Fry operates as a single reportable operating segment, as these terms are used in the CICA handbook.

### 3 Selected Annual Information

	2004	2003	2002	2001	2000
Revenue USA	\$2,248,646	\$2,270,466	\$2,328,528	\$1,499,615	\$1,689,810
Revenue Canada	707,654	535,033	761,831	638,493	607,764
Revenue International	434,454	797,325	479,586	322,325	296,338
Other Income	50,144	90,354	16,003	0	0
Total Revenue	3,440,898	3,693,178	3,585,948	2,460,433	2,593,912
Net Earnings (Loss)	353,946	324,318	366,786	(237,234)	178,369
Per Share	.04	.03	.04	(.02)	.02
Total Assets	4,002,038	3,703,783	2,512,813	2,522,695	2,785,795
Long Term Liabilities	740,666	765,823	0	0	0

The financial data in this MD&A has been prepared in accordance with Canadian Generally Accepted Accounting Principles and are presented in Canadian dollars.

### 4 Results of Operations

Perfect Fry's results of operations have remained stable over the past three years with sales in the area of \$3.5 million and net income of about 10% of revenue. Perfect Fry continues to use tax pools carried forward from previous years and is therefore not in a tax payable situation.

First quarter revenue results are lower than expected mainly due to three factors; lower sales both in Canada and International, last year we had a price increase which took effect in February which motivated excess sales in January and average exchange rates on USD has declined by 10% this year compared to the same period last year. Even with the lower sales and significant impact from the exchange rate fluctuation our cost of goods percentage has remained unchanged due to more efficient production and lower costs from the dropping USD.

Selling costs including advertising and promotional efforts increased slightly compared to last year which continues to show increased initiatives in expanding our recognition in the industry. We are continuing to expand the promotional programs supporting the efforts of our distribution network.

General and administrative costs have declined as we continue to strive to become more efficient at what we do. Warranty costs again showed a slight decline as our design and quality control efforts continue to show positive long term results.

The Company moved into its own building in January 2004 and for 2 months had to pay for both the old lease and the costs in the new building. Including expenditures for 2 facilities for 2 months, Perfect Fry experienced significantly lower net cost of occupancy in 2005 compared to 2004.

Perfect Fry continues to operate with very little credit risk or resulting bad debts. Our distributor relationships are significantly secure and financially sound. The Company has experienced \$20,000 in bad debts during the past 5 years of \$15.8 million in revenue.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT)

## First Quarter

Report for the Quarter Ended January 31, 2005

## 5 Quarterly Results

(\$ in 000's – except per share amounts)

	2005	2004				2003				2002		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	605	1024	696	754	967	876	887	1196	734	924	858	1074
Net Earnings (Loss)	(56)	235	5	40	74	129	36	152	7	234	36	100
Per Share	0	.03	0	0	.01	.01	0	.02	0	.03	0	.01

The Company commits to forward buying patterns when this appears to be advantageous. The forward purchase of steel over a year ago and has ended resulting in higher steel costs for this first quarter.

Our overall sales strategy continues to focus on specialty distributors of the food equipment industry. This allows Perfect Fry to develop long term quality relationships.

Competition in the marketplace has changed. A new competitor entered the US marketplace in February of 2004, which contributed to lower Perfect Fry revenue in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. We regained our momentum in the 4<sup>th</sup> quarter and the overall results for the year remain strong and stable. We have not been able to determine whether this has effected first quarter results.

Exchange rate fluctuation is an ongoing concern for the Company as a significant portion of revenue is earned in US dollars. Perfect Fry will continue to sell in US dollars to keep our distributor relationships strong. Perfect Fry has alleviated all cross-border stress for our distributors by removing barriers such as customs reporting, freight concerns and currency transactions. The Company feels strongly that the administrative cost of removing these barriers is easily offset by the efficiencies enjoyed by our distributors.

## 6 Liquidity

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long Term Debt	\$761,109	\$27,903	\$91,509	\$68,109	\$573,588
Operating Lease	27,022	4,122	16,488	6,412	

The Company is able to supply cash requirements for future needs on a regular basis from operations. Our production schedule continues to steadily gain efficiencies through all periods of the year and inventory levels do rise and fall as a normal course of business.

Fluctuations in liquidity occur throughout the year as sales in the summer and winter months are generally lower than the spring and fall. Given potential sales growth, working capital fluctuations would be provided by operating loans of up to \$600,000 from bank financing. On normal Company operations, working capital deficiencies have been supplied by bank financing. Only \$230,000 of the operating loan has been used in the past 2 years.

We offer extended payment terms to qualified distributors to help them with demonstration and rental equipment opportunities. Perfect Fry sells this equipment to the distributor and extends payment terms for up to 12 months and in some cases as long as 24 months. Perfect Fry distributors experience sales in over 50% of situations where the customer has the opportunity to operate the fryer. The financial requirements of this program are continuously reviewed and kept to acceptable levels.

There are no restrictions in the movement of financial resources between the subsidiary and parent companies.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT)

### First Quarter

### Report for the Quarter Ended January 31, 2005

The Company does not have any defaults and is not in arrears of any accounts, nor does it have any large purchase obligations either outstanding or planned.

#### **7 Capital Resources**

The Company has no future plans for significant capital expenditures. The building which now houses the Company has sufficient space for growth.

The Company uses ongoing cash flows to support research and development activities, there are currently no long term obligations or outstanding agreements to fulfill. Our research and development expenditures are solely for our own future vision and can be expanded or downsized depending on finances.

#### **8 Off-Balance Sheet Arrangements**

The Company carries on the normal basis of business through purchase orders that in some cases will extend beyond the coming year. These purchase orders are not contracts with strict time frames. We can take price advantage of larger purchase quantities without locking in exact times of delivery. This gives us flexibility in working out financial requirements and longer term inventory levels. In the event of some unforeseen difficulty the Company could cancel these orders without financial consequences.

Because Perfect Fry earns a significant portion of its operating revenues in US dollars, variation in exchange rates affect the Company's operating and financial results. In May 2004, the Company entered into an option dated foreign exchange contract to sell \$500,000 US dollars over a one-year term at a rate of 1.3770 USD/CDN. At October 31, 2004 a balance of \$220,000 remained to be sold. During the first quarter this balance was sold and the contract completed. The financial results of this contract show as a net foreign exchange gain of \$39,743 during the first quarter. The Company has and will continue to develop an ongoing strategy to reduce future exchange risks.

#### **9 Transactions with Related Parties**

The Company's consolidated financial statements reflect the ongoing operations of Perfect Fry Corporation, the parent, Perfect Fry Company Ltd., the operating company and Perfect Fry Holdings Ltd. which owns the land and building.

A certain director is also a distributor. All sales to this director/distributor are at normal sales terms and the volume of business is not significant. No other related parties exist apart from the director/distributor.

#### **10 Fourth Quarter Results**

Not applicable.

#### **11 Proposed Transactions**

The Perfect Fry Corporation Board of Directors is conducting a normal course issuer bid, which commenced July 1, 2004 and expires June 30, 2005. The Company intends to purchase for cancellation up to a maximum of 489,432 common shares, representing 5% of all common shares issued and outstanding. This program allows the Company to purchase common shares in the normal course when the Company estimates that the common shares are undervalued by the Market. These purchases are to be made through the facilities of the TSX Venture Exchange in accordance with its policy on normal course issuer bids. The price that the Company will pay for any common shares will be the market price at the time of acquisition to a maximum market price of \$0.50 per share. As at October 31, 2004 no purchases had been made. At the time of this writing, the Company had purchased 136,000 shares at prices between \$0.18 and \$0.235 per share. The purchase of these shares has resulted in a decrease in Share capital to \$1,447,446 and a reduction of Retained Earnings of \$3,165.

**MANAGEMENT DISCUSSION AND ANALYSIS (CONT)****First Quarter****Report for the Quarter Ended January 31, 2005****12 Critical Accounting Estimates**

The accounting process requires that management make, and periodically review, a number of estimates including the following more significant assessments of the:

- net realizable value of accounts receivables and inventories;
- net recoverable value of property, plant and equipment and deferred product development costs;
- economic useful life of long lived assets for purposes of calculating amortization; and
- realization of future tax assets.

Actual results may differ from these estimates.

**13 Changes in Accounting Policies**

Effective November 1, 2003 the company adopted CICA handbook Sections; 1100, Generally Accepted Accounting Principles, 1400, General Standards of Financial Presentation, 3110, Asset Retirement Obligations, 3870 Stock-Based Compensation and Other Stock-Based Payments and EIC-141, Revenue Recognition. The Company has determined there is no effect to the current or prior years for the implementation of any of these sections.

**14 Financial Instruments**

There are no financial instruments that may be settled by the delivery of non-financial assets. There are no other financial instruments which have not been discussed in this document.

**15 Other MD&A Requirements**

Further information relating to the Company is disclosed on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**PERFECT FRY CORPORATION****CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****THREE MONTHS ENDED JANUARY 31, 2005 and 2004****NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

**PERFECT FRY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

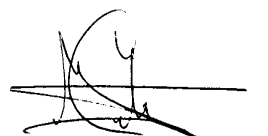
	<b>January 31, 2005 (Unaudited)</b>	<b>October 31, 2004</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	-	2,888
Accounts receivable	755,351	852,589
Inventories (Note 2)	932,480	737,503
Prepaid expenses	49,604	16,748
	1,737,435	1,609,728
PROPERTY, PLANT AND EQUIPMENT (Note 3)	1,419,476	1,415,206
DEFERRED PRODUCT DEVELOPMENT COSTS (Note 4)	983,105	977,104
	4,140,016	4,002,038

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>		
Bank indebtedness (Note 5)	109,325	-
Accounts payable and accrued liabilities	378,958	270,127
Current portion of long term debt (Note 6)	27,903	27,194
	516,186	297,321
LONG TERM DEBT (Note 6)	733,206	740,666
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	1,447,446	1,461,471
Retained earnings	1,443,178	1,502,580
	2,890,624	2,964,051
	4,140,016	4,002,038

Commitment (Note 8)

ON BEHALF OF THE BOARD:

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

PLEASE SEE NOTES

**PERFECT FRY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
**THREE MONTHS ENDED JANUARY 31, 2005 AND 2004**

	2005 (Unaudited) \$	2004 (Unaudited) \$
REVENUE (Note 9)	605,264	966,946
OPERATING EXPENSES		
Cost of goods, selling and administration	563,204	768,754
US marketing initiatives	<u>86,177</u>	<u>78,594</u>
Total operating expenses	649,381	847,348
NON-OPERATING EXPENSES		
Interest		
Long term debt	8,461	10,708
Other	4,402	4,341
Amortization		
Property, plant and equipment	27,000	27,365
Deferred product development costs	12,000	18,000
Foreign exchange (gain)	<u>(39,743)</u>	<u>(14,610)</u>
Total non-operating expenses	<u>12,120</u>	<u>45,804</u>
	<u>661,501</u>	<u>893,152</u>
NET (LOSS) EARNINGS	(56,237)	73,794
RETAINED EARNINGS, beginning of year	1,502,580	1,148,634
Acquisition of common shares (Note 7)	<u>3,165</u>	<u>-</u>
RETAINED EARNINGS, end of period	<u>1,443,178</u>	<u>1,222,428</u>
(LOSS) EARNINGS PER SHARE (Basic and Diluted – Note 7)	<u>(0.01)</u>	<u>0.00</u>

PLEASE SEE NOTES

**PERFECT FRY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED JANUARY 31, 2005 AND 2004**

	<b>2005</b> <b>(Unaudited)</b> <b>\$</b>	<b>2004</b> <b>(Unaudited)</b> <b>\$</b>
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Net (loss) earnings	(56,237)	73,794
Items not affecting cash		
Amortization of property, plant and equipment	27,000	27,365
Amortization of deferred product development costs	12,000	18,000
	<u>(17,237)</u>	<u>119,159</u>
Changes in non-cash working capital		
Accounts receivable	97,238	(398,134)
Inventory	(194,977)	137,142
Prepaid expenses	(32,856)	1,660
Accounts payable and accrued liabilities	108,831	13,717
	<u>(21,764)</u>	<u>(245,615)</u>
	<u>(39,001)</u>	<u>(126,456)</u>
INVESTING		
Additions to property, plant and equipment	(31,270)	(86,340)
Additions to deferred product development costs	(18,001)	(35,800)
	<u>(49,271)</u>	<u>(122,140)</u>
FINANCING		
Repayment of long term debt	(6,751)	(5,753)
Acquisition of common shares (Note 7)	(17,190)	-
	<u>(23,941)</u>	<u>(5,753)</u>
(DECREASE) IN CASH POSITION	(112,213)	(254,349)
CASH (BANK INDEBTEDNESS), beginning of year	<u>2,888</u>	<u>35,651</u>
(BANK INDEBTEDNESS), end of period	<u>(109,325)</u>	<u>(218,698)</u>
Note:		
Interest paid	12,863	15,049
Income taxes paid	-	-

PLEASE SEE NOTES

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**1. SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation

The Company's consolidated financial statements reflect the ongoing operations of Perfect Fry Corporation, which performs management duties, Perfect Fry Company Ltd., the operating company; and Perfect Fry Holdings Ltd. which owns the land and building. The interim financial statements, which were not subject to audit or review by the Company's independent auditors, follow the same accounting policies and methods of computation as the audited financial statements for the year ended October 31, 2004. These interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2004 as not all disclosures required by Generally Accepted Accounting Principles for annual financial statements are presented.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short term market investments with original maturities less than three months.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average method and includes material, direct labour and overhead.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided as follows:

Building	4% declining balance method
Office and equipment	20% to 30% declining balance method
Leasehold improvements	Straight-line over the term of the lease

Annually, or more frequently as circumstances require, the Company performs evaluations to assess the recoverability of all property, plant and equipment.

Effective November 1, 2003 the company adopted the CICA Handbook Section 3110, Asset Retirement Obligations. The Company has determined there is no affect to the current or prior years.

Deferred Product Development Costs

Product development costs are expensed to operations unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized on a straight-line basis over ten years or over estimated units of sale. Research costs are expensed as incurred.

The value of the residual unamortized balance of deferred product development costs is assessed at least annually with reference to the related projected undiscounted cash flows.

Income Taxes

The Company utilizes the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

Basic and diluted earnings per share are calculated using the weighted average number of common shares outstanding during the period.

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

Measurement uncertainty

The accounting process requires that management make, and periodically review, a number of estimates including the following more significant assessments of the:

- net realizable value of accounts receivables and inventories;
- net recoverable value of property, plant and equipment and deferred product development costs;
- economic useful life of long lived assets for purposes of calculating amortization; and
- realization of future tax assets.

Actual results may differ from these estimates.

Stock-based Compensation

The Company has one compensation plan as described in Note 7.

Effective November 1, 2003 the company changed its accounting policy for stock options granted on or after that date to reflect the adoption of the revised CICA handbook Section 3870. Under the new policy, the Company determines the fair value of stock options, using an accepted option-pricing model, on their grant date and recognizes this amount as compensation expense over the period the stock options vest, with a corresponding increase to contributed surplus in Shareholders' equity.

Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using the average rate for the month in which the transaction occurred. Balance Sheet monetary items are translated at the rate at the balance sheet date. All translation gains and losses are included in the determination of net earnings.

Basis of Revenue Recognition

Revenue is derived from the sale and service of the Company's patented counter-top deep fryers, filters, parts and accessories. Sales are recorded on ship date, and are made to approved distributors under terms of FOB factory, with payment terms ranging from 1 month to 24 months. Service revenue is recorded at the time the service is provided. Additional revenue is derived from the rental of excess building capacity and is categorized as other income (see Note 9).

**2. INVENTORIES**

	<b>January 31, 2005</b>	<b>October 31, 2004</b>
	\$	\$
Finished goods	523,493	316,920
Parts	408,987	420,583
	932,480	737,503
	932,480	737,503

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>January 31, 2005</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land	400,000	-	400,000
Building	832,753	55,984	776,769
Office and equipment	646,589	403,882	242,707
Leasehold improvements	-	-	-
	1,879,342	459,866	1,419,476

	<b>October 31, 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land	400,000	-	400,000
Building	820,630	43,984	776,646
Office and equipment	627,442	388,882	238,560
Leasehold improvements	-	-	-
	1,848,072	432,866	1,415,206

**4. DEFERRED PRODUCT DEVELOPMENT COSTS**

	<b>January 31, 2005</b>	<b>October 31, 2004</b>
	<b>\$</b>	<b>\$</b>
Deferred product development costs	2,069,235	2,051,235
Accumulated amortization	(1,086,130)	(1,074,131)
	983,105	977,104

**5. BANK INDEBTEDNESS**

The Company has access to a bank operating credit facility of \$600,000. Advances under this facility bear interest at prime plus .75% and are secured by all assets of the business.

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**6. LONG TERM DEBT**

The mortgage payable is to the Community Credit Union and is amortized over a 20 year term. It is repayable in monthly amounts of \$5,070 which includes interest at 4.43%. Subsequent to year end, the mortgage was renewed for a one year term, maturing March 1, 2006, and is repayable in monthly amounts of \$5,256 which includes interest at 4.85%. The mortgage is secured by the land and building (Note 3), an assignment of rents, a general security agreement over all other assets and an assignment of insurance.

	<b>January 31, 2005</b>	<b>October 31, 2004</b>
	\$	\$
Mortgage payable	761,109	767,860
Current portion	<u>(27,903)</u>	<u>(27,194)</u>
Long term debt	<u>733,206</u>	<u>740,666</u>

Principal repayments on the mortgage as follows assuming future renewals at current rates:

	\$
2005	27,903
2006	29,165
2007	30,483
2008	31,861
2009	33,302
2010	34,807
2011 and thereafter	<u>573,588</u>
	<u>761,109</u>

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**7. SHARE CAPITAL**

Authorized

Unlimited number of preferred and common shares.

Issued Common Shares

Three months ended January 31, Issued and Outstanding at beginning of year	2005	2005	2004	2004
	9,788,656	\$1,461,471	9,788,656	\$1,461,471
Acquired and cancelled	93,500	14,025	-	-
Issued and Outstanding at end of period	9,695,156	\$1,447,446	9,788,656	\$1,461,471

Earnings per share

Options to purchase 370,000 common shares were outstanding during the year ended October 31, 2004 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. All outstanding options expired during the third quarter of 2004.

For the three months ended January 31	<i>Income (numerator)</i>		<i>Shares (denominator)</i>		<i>Per share amount</i>	
	2005	2004	2005	2004	2005	2004
Basic (loss) earnings per share	(56,237)	73,794	9,754,602	9,788,656	\$(0.01)	\$0.00
Diluted earnings per share	(56,237)	73,794	9,754,602	9,788,656	\$(0.01)	\$0.00

Options

Under the stock option plan of the Company, options may be granted at management's discretion, to directors, officers and employees, with the approval of the board of directors being required, for the purchase of common shares. The following table depicts the changes in options in the periods presented. There were no options outstanding at October 31, 2004 and January 31, 2005.

Options	<u>Options Issued and Outstanding</u>		<u>Weighted Average Exercise Price</u>	
	2005	2004	2005	2004
Outstanding October 31	-	370,000	-	\$0.30
Options forfeited	-	-	-	-
Outstanding at January 31	-	370,000	-	\$0.30
Options exercisable at January 31	-	370,000		
Options held by directors and officers at January 31	-	215,000		

Normal Course Issuer Bid

The Company commenced a normal course issuer bid on July 1, 2004 allowing it to purchase up to 489,432 common shares (5% of all common shares issued) for cancellation until its termination on June 30, 2005 or such earlier time as the bid is complete. Subsequent to January 31, 2005, 42,500 shares were acquired and cancelled at prices between \$0.18 and \$0.235 per share.

**PERFECT FRY CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**  
**THREE MONTHS ENDED JANUARY 31, 2005**

**8. COMMITMENT**

Subsequent to October 31, 2004, the Company entered into office equipment leases requiring payments of \$458 per month until December 2009.

**9. REVENUE**

The Company's operations are conducted in one business segment, however the products and services are sold in a number of very different geographic markets. A summary of the Company's revenue by geographic area follows:

<b>Revenue for the three months ended January 31</b>	<b>2005</b>	<b>2004</b>
Revenue and service		
USA	\$449,522	\$783,103
Canada	77,687	118,139
International	65,144	51,481
	<hr/>	<hr/>
	592,353	952,723
Other income	12,911	14,223
	<hr/>	<hr/>
	<b>\$605,264</b>	<b>\$966,946</b>

**10. FINANCIAL INSTRUMENTS**

Financial instruments of the Company include cash and cash equivalents, accounts receivable, a forward exchange contract, accounts payable, accrued liabilities and long term debt.

Fair Values- The fair values of current financial instruments are established to approximate their carrying values due to their short term maturities. The fair values of non current financial instruments are estimated using discounted cash flow analysis based on the Company's current borrowing rates. There is no material difference between the carrying value and the fair value for long term accounts receivable or long term debt.

Credit Risk- All credit risk is within the food service industry and is spread among many customers in many countries. The Company performs ongoing credit evaluations of the customers and maintains allowances for potential credit losses which, when realized, have been within the range of management expectation.

Foreign Exchange Risk- The Company earns a significant portion (69% in Fiscal 2004, 62% in Fiscal 2003) of its operating revenues in US dollars and as such, variations in exchange rates effect the Company's operating and financial results.

**11. RELATED PARTY TRANSACTIONS**

A certain director is also a distributor. All sales to this director/distributor are at normal sales terms and the volume of business is not significant.



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