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CabelTel International Corp
Form 10-K/A
January 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A\
Amendment No. 4

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 5(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-08187

CabelTel International Corporation

(Exact name of registrant as specified in its charter)

Nevada

75-2399477

(State or other jurisdiction of
Incorporation or organization)

(IRS Employer Identification
Number)

1755 Wittington Place, Suite 340, Dallas, Texas

75234

(Address of principal executive offices)

(Zip Code)

Registrant's Telephone Number, including area code

(972) 407-8400

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$0.01 par value

Name of each exchange on which registered
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein,

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and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [] No [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common Stock on the American Stock Exchange as of June 30, 2004 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$2,424,000 based upon a total of 977,004 shares held as of June 30, 2004 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of January 12, 2006, there were 977,004 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
NONE

AMENDMENT NO. 4 TO
ANNUAL REPORT ON FORM 10-K FOR
CABELTEL INTERNATIONAL CORPORATION

The undersigned Registrant hereby further amends the following items, exhibits or other portions of its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in Amendment No. 3 to Form 10-K dated November 18, 2005:

- o Page 2 - Amendment No. 3 explanation page; and
- o Page 9 - Recent Acquisition of CableTEL AD; and
- o Page 22 - Item 8 - Financial Statements (also F-1 following).

The balance of the items have not been changed from Amendment No. 3 or the original filing and have accordingly not been updated to any current date.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Amendment to be signed on its behalf by the undersigned, thereunto duly-authorized.

Date: January 16, 2006.

CABELTEL INTERNATIONAL CORPORATION

By: /s/ Gene S. Bertcher

Gene S. Bertcher, President and Chief
Financial Officer

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AMENDMENT NO. 3 TO
FORM 10-K ANNUAL REPORT FOR
CABELTEL INTERNATIONAL CORPORATION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

The undersigned Registrant hereby amends the following items, exhibits or other portions of its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in the original filing.

As a preface to the identification below, the entirety of the Report has been amended to reflect an acquisition of two U.S. entities which are not consolidated into the Company but are maintained in a separate basis; see Item I, Business - "Recent Acquisition of CableTEL AD." This change was necessitated by certain comments by the Staff of the Securities and Exchange Commission (the "SEC"), which resulted in an appeal to the Office of the Chief Accountant of the SEC. On October 25, 2005, the Office of the Chief Accountant of the SEC provided its determination of the appeal with respect to certain accounting treatment.

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The appeal was the result of an initial determination and comment by the Staff of the SEC during May 2005, that, in this very unique set of circumstances and in the opinion of the Staff, reverse acquisition accounting treatment may not have been the proper treatment. Management has determined based upon discussions with the Office of the Chief Accountant during such appeal that while the overall acquisition and other contingent aspects of the transaction are a single transaction, the appropriate accounting treatment at this time is recordation of the issuance of the Preferred Stock together with a recordation of a "contra asset" in the same amount for the value of the two U.S. corporations and CableTEL AD. The result is that Management of the Company filed a Form 8-K Current Report for event noted October 25, 2005, under Item 4.02, which of necessity requires certain changes in the Annual Report on Form 10-K to cover such treatment. This document includes additional items of Form 10-K which have not been amended or changed, but the items which are changed are as follows:

- o Page 4, Item 1 - Business.
- o Page 13, Item 2 - Properties.
- o Page 16, Item 6 - Selected Financial Data.
- o Page 17, Item 7 - Management's Discussion and Analysis of Results of Operation.
- o Page 22, Item 7(a) - Quantitative and Qualitative Disclosures About Market Risk.
- o Page 22, Item 8 - Financial Statements (also F-1 following).

Separate audited financial statements of CableTEL AD are included as Exhibit 99.1 because the Registrant intends to seek approval of an exchange of 2% Series J Preferred Stock for Common Stock of the Registrant (see "Recent Acquisition of CableTEL AD" at page 9), and upon consummation of that exchange transaction, a reverse acquisition would be recorded with the CableTEL AD financial statements as the accounting acquirer, and therefore are relevant to investors.

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Management is not aware of any non-compliance by the Company as regards applicable regulatory requirements that would have a material adverse effect on the Company's financial condition or results of operations.

Recent Acquisition of CableTEL AD

On October 12, 2004, CIC acquired, for 31,500 shares of newly-designated 2% Series J Preferred Stock, 74.8% of CableTEL AD ("CableTEL"), a Bulgarian telecommunications company. The terms of the acquisition agreement require CIC to present a proposal to its stockholders to approve the mandatory exchange of all shares of Series J Preferred Stock into 8,788,500 shares of common stock which, if approved by stockholders, would represent 90% of the resulting total issued and outstanding shares of common stock in CIC. As of the date of this report, the exchange has not occurred.

The acquisition agreement, as amended, provides that the stockholders of CIC have until June 30, 2006 to approve the exchange of Series J Preferred Stock into CIC common stock. If the exchange is not approved by June 30, 2006, the holders of the Series J Preferred Stock have the option to rescind the

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entire transaction. Until the acquisition is completed, CableTEL AD will not be included in CIC's consolidated financial statements and the financial statements of CIC will include a Series J Preferred Stock contra equity account representing the Company's interest in CableTEL AD.

If the stockholders of CIC approve the transaction, it would effectively give the owners of CableTEL AD the controlling interest in CIC. Due to the effective change in control, by virtue of the aforementioned exchange into common stock, this transaction will be accounted for, upon the exchange, as a "reverse acquisition," with CableTEL AD being the accounting acquirer and with CIC accounted for as if it had been acquired on the exchange date. Separate audited financial statements of CableTEL AD are included as an exhibit to this report because, upon completion the exchange, such financial statements will be that of the accounting acquirer and are therefore relevant to investors.

CableTEL AD is the largest cable television ("CATV") operator in the Country of Bulgaria. In addition, CableTEL AD has built a fiber optic backbone (the "backbone") consisting of three ducts around Bulgaria at a total cost of \$29,872,500. CableTEL AD intends to keep one duct for its own use and sell the remaining two ducts to unrelated third parties to offset the cost of building the ducts.

CableTEL AD's marketing is centralized in its Sofia, Bulgaria headquarters. Given the acquisitions strategy of CableTEL AD, the Sales and Marketing Department has developed a re-branding strategy to quickly bring new operations up to CableTEL AD communication standards and preserve the overall strength of the CableTEL AD brand.

In addition to CATV, CableTEL AD provides internet service, VoIP (internet telephony) and mobile phone services. The company is well-positioned from both a marketing and quality approach to being a strong competitor in its markets.

CableTEL AD has 384 employees (372 full-time and 12 part-time) in Bulgaria. It leases its headquarters and owns no property. The technical nature of its business requires a high capital cost.

For further information on CableTEL AD, please refer to Note A in the accompanying financial statements and the separate audited financial statements of CableTEL AD included as Exhibit 99.1.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Cabeltel International Corporation, formerly Greenbriar Corporation

We have audited the accompanying consolidated balance sheets of Cabeltel International Corporation, formerly Greenbriar Corporation, and subsidiaries as of December 31, 2004, and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cabeltel International Corporation, formerly Greenbriar Corporation, and subsidiaries as of December 31, 2004, and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ FARMER FUQUA & HUFF, P.C.

Plano, Texas
April 15, 2005

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Cabeltel International Corporation

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity and cash flows of Cabeltel International Corporation (formerly Greenbriar Corporation) and subsidiaries for the year ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

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We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and the consolidated cash flows of Cabeltel International Corporation and subsidiaries for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note O to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets."

/s/ GRANT THORNTON LLP

Dallas, Texas
March 28, 2003

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS (Amounts in thousands)

December 31,

ASSETS

| | 2004 | 2003 |
|--|---------|---------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 762 | \$ 688 |
| Accounts receivable - trade | 222 | 100 |
| Notes receivable | 856 | 2,435 |
| Property held for sale | 1,760 | 1,859 |
| Other current assets, net | 103 | 198 |
| | ----- | ----- |
| Total Current Assets | 3,703 | 5,280 |
| NOTES RECEIVABLE, net of deferred income | 309 | 387 |
| PROPERTY AND EQUIPMENT, AT COST | | |
| Land and improvements | 2,232 | 2,446 |
| Buildings and improvements | 6,987 | 7,276 |
| Equipment and furnishings | 273 | 951 |
| Proven oil and gas properties (full cost method) | 1,479 | 1,361 |
| | ----- | ----- |
| | 10,971 | 12,034 |
| Less accumulated depreciation, depletion, and amortization | (1,090) | (1,280) |
| | ----- | ----- |

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| | | |
|-----------------------------|-----------|-----------|
| | 9,881 | 10,754 |
| DEFERRED INCOME TAX BENEFIT | 1,161 | 1,161 |
| DUE FROM CABLETEL AD | 951 | |
| DEPOSITS | 36 | 232 |
| OTHER ASSETS, NET | 725 | 317 |
| | ----- | ----- |
| Total Assets | \$ 16,766 | \$ 18,131 |
| | ===== | ===== |

The accompanying notes are an integral part of this statement.

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS - CONTINUED
(Amounts in thousands, except share amounts)

December 31,

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2004 | 2003 |
|--|----------|----------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt, including amounts to related parties of \$901 | \$ 4,780 | \$ 4,690 |
| Current notes payable | 240 | 5,571 |
| Accounts payable - trade | 687 | 503 |
| Accrued expenses | 828 | 633 |
| Other current liabilities | -- | 931 |
| | ----- | ----- |
| Total Current Liabilities | 6,535 | 12,328 |
| LONG-TERM DEBT | 8,338 | 2,053 |
| OTHER NON-CURRENT LIABILITIES | 155 | -- |
| DEFERRED GAIN | -- | 740 |
| OTHER LONG-TERM LIABILITIES | -- | 456 |

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| | | |
|--|----------|----------|
| | ----- | ----- |
| Total Liabilities | 15,028 | 15,577 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, Series B | 1 | 1 |
| Preferred stock, Series J 2% | 3,150 | -- |
| Preferred stock, Series J contra equity | (3,150) | -- |
| Common stock, \$.01 par value; authorized, 4,000,000 shares; issued and outstanding, 977,000 shares | 10 | 10 |
| Additional paid-in capital | 55,966 | 55,966 |
| Accumulated deficit | (54,239) | (53,423) |
| | ----- | ----- |
| | 1,738 | 2,554 |
| | ----- | ----- |
| Total liabilities & equity | 16,766 | 18,131 |
| | ===== | ===== |

The accompanying notes are an integral part of this statement.

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

| | Year ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2004 | 2003 | 2002 |
| | ----- | ----- | ----- |
| Revenue | | | |
| Real estate operations | \$ 4,813 | \$ 2,598 | \$ 3,000 |
| Oil and gas operations | 1,410 | 449 | 1,000 |
| | ----- | ----- | ----- |
| | 6,223 | 3,047 | 3,000 |
| | ----- | ----- | ----- |
| Operating expenses | | | |
| Real estate operations | 2,925 | 996 | 1,000 |
| Oil and gas operations | 1,003 | 400 | 1,000 |
| Lease expense | 917 | 969 | 1,000 |
| Depreciation, depletion, and amortization | 570 | 160 | 1,000 |
| General and administrative | 1,715 | 1,111 | 2,000 |
| Write-down of assets | -- | -- | -- |
| | ----- | ----- | ----- |
| | 7,130 | 3,636 | 5,000 |
| | ----- | ----- | ----- |
| Operating loss | (907) | (589) | (2,000) |
| Other income (expense) | | | |
| Interest income | 213 | 304 | 1,000 |
| Interest expense | (991) | (498) | 1,000 |

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| | | | |
|---|-----------|---------|-----------|
| Gain on sale of assets, net | 1,456 | 1,058 | |
| Other income (expense), net | (403) | 342 | (1) |
| | ----- | ----- | ----- |
| | 275 | 1,206 | |
| | ----- | ----- | ----- |
| Earnings (loss) from continuing operations before income taxes | (632) | 617 | (2) |
| Income tax expense | -- | -- | |
| Earnings (loss) from continuing operations | (632) | 617 | (3) |
| | ----- | ----- | ----- |
| Discontinued operations | | | |
| Loss from operations | (184) | (395) | (4) |
| Loss on disposal, (including taxes of \$440 in 2002) | -- | -- | (4) |
| | ----- | ----- | ----- |
| Loss from discontinued operations | (184) | (395) | (4) |
| | ----- | ----- | ----- |
| Net earnings (loss) | (816) | 222 | (8) |
| Preferred dividend requirement | -- | -- | |
| | ----- | ----- | ----- |
| Net earnings (loss) applicable to common shares | \$ (816) | \$ 222 | \$ (8) |
| | ===== | ===== | ===== |
| Earnings (loss) per share - basic | | | |
| Continuing operations | \$ (0.65) | \$ 0.87 | \$ (0.65) |
| Discontinued operations | (0.19) | (0.56) | (0.19) |
| | ----- | ----- | ----- |
| Net earnings (loss) per share | \$ (0.84) | \$ 0.31 | \$ (0.84) |
| Basic weighted average common shares | 977 | 706 | |

The accompanying notes are an integral part of this statement.

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

| | Year ended December 31, | | |
|--|-------------------------|---------|----------|
| | 2004 | 2003 | 2002 |
| | ----- | ----- | ----- |
| Cash flows from operating activities | | | |
| Net earnings (loss) | \$ (816) | \$ 222 | \$ (816) |
| Adjustments to reconcile net earnings (loss) to net Cash provided by (used in) operating activities | | | |
| Depreciation and amortization | 570 | 160 | 160 |
| Depreciation from assets classified as discontinued operations | -- | 170 | -- |
| (Gain) loss from affiliates | (1,247) | (131) | (1,247) |
| (Gain) loss on sale of properties | (209) | (1,058) | (209) |
| Write-down of impaired assets | 147 | -- | 147 |
| Deferred income taxes | -- | -- | -- |

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| | | | |
|--|---------|---------|-------|
| Changes in operating assets and liabilities | | | |
| Accounts receivable - trade | (122) | (45) | |
| Other current and non-current assets | (132) | 174 | |
| Accounts payable and other liabilities | (357) | 22 | |
| | ----- | ----- | ----- |
| Net cash provided by (used in) operating activities | (2,166) | (486) | |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (845) | (1,225) | |
| Net repayment of notes receivable | 1,579 | 334 | |
| Proceeds from sale of investments | -- | -- | |
| Proceeds from sale of properties | -- | 126 | |
| | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities | 734 | (765) | |
| Cash flows from financing activities | | | |
| Proceeds from common stock issuance | -- | 792 | |
| Proceeds from borrowings | 6,500 | 500 | |
| Payments on debt | (5,591) | (90) | |
| Distributions from equity partnerships' financing cash flow | 507 | 85 | |
| Dividends on preferred stock | -- | -- | |
| Repurchase of common stock | -- | (9) | |
| Net advances from affiliates | 90 | -- | |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | 1,506 | 1,278 | |
| Net increase (decrease) in cash and cash equivalents | 74 | 27 | |
| Cash and cash equivalents at beginning of year | 688 | 661 | |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 762 | \$ 688 | \$ |

The accompanying notes are an integral part of this statement.

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(Amounts in thousands)

Supplemental information on cash flows is as follows:

| | | | |
|---------------|--------|--------|----|
| Interest paid | \$ 705 | \$ 515 | \$ |
|---------------|--------|--------|----|

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| | | |
|---|-----|-------|
| Income taxes paid | -- | -- |
| Non-cash investing and financing activities: | | |
| Notes received from sale of assets | -- | -- |
| Notes given in connection with purchase of property | -- | 5,905 |
| Common stock issued in connection with satisfaction of note to executive officer | -- | 198 |
| Disposal of property to satisfy debt | 935 | -- |
| Notes payable agreed by buyer upon sale of real estate | 906 | -- |

The accompanying notes are an integral part of this statement.

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CabelTel International Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands)

| | Series B Preferred stock | | Series J Preferred stock | | Series J Preferred stock Contra Equity | |
|---|-----------------------------|--------|-----------------------------|--------|--|--------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Balance at January 1, 2002 | 1 | 1 | -- | -- | -- | -- |
| Write-off of stock purchase notes receivable | -- | -- | -- | -- | -- | -- |

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CabelTel International Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004

NOTE A - BUSINESS DESCRIPTION AND PRESENTATION

Name Change

On February 10, 2005, Greenbriar Corporation changed its name to CabelTel International Corporation (which is referred throughout this report as "CIC").

Acquisition of CableTEL AD

On October 12, 2004, CIC acquired, for 31,500 shares of newly-designated 2% Series J Preferred Stock, 74.8% of CableTEL AD, a Bulgarian telecommunications company. The terms of the acquisition agreement require CIC to present a proposal to its stockholders to approve the mandatory exchange of all shares of Series J Preferred Stock into 8,788,500 shares of common stock which, if approved by stockholders, would represent 90% of the resulting total issued and outstanding shares of common stock in CIC. As of the date of this report the exchange has not occurred.

The acquisition agreement, as amended, provides that the stockholders of CIC have until June 30, 2006 to approve the exchange of Series J Preferred Stock into CIC common stock. If the exchange is not approved by June 30, 2006 the holders of the Series J Preferred Stock have the option to rescind the entire transaction. Until the acquisition is completed, CableTEL AD will not be included in CIC's consolidated financial statements and the financial statements of CIC will include a Series J Preferred Stock contra equity account representing the Company's interest in CableTEL AD.

If the stockholders of CIC approve the transaction it would effectively give the owners of the CableTEL AD the controlling interest in CIC. Due to the effective change in control, by virtue of the aforementioned exchange into common stock, this transaction will be accounted for, upon the exchange, as a "reverse acquisition," with CableTEL AD being the accounting acquirer and with CIC accounted for as if it had been acquired on the exchange date.

Nature of Operations

As of December 31, 2004, the Company controls three retirement communities in three states. The Company operates two of the retirement communities with a capacity of 162 residents and leases one community to a third party. The Company owns an outlet shopping mall in Gainesville, Texas with approximately 315,000 square feet of retail space available for lease. In addition the Company owns the leases for approximately 200 oil wells in East Texas. These are low production wells with maximum production limits of 20 barrels of oil per day. As of March 31, 2005, there are 48 wells in operation.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation

The consolidated financial statements include the accounts of CabelTel International Corporation and its majority-owned subsidiaries (collectively, the "Company" or "CIC") and are prepared on the basis of accounting principles generally accepted in the United States of America. All significant intercompany transactions and accounts have been eliminated.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of property and equipment to operations over their estimated service lives, ranging from 3 to 40 years. Depreciation is computed by the straight-line method.

Accounting for Leases

Leases of property, plant and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Revenue Recognition

Crude oil and natural gas revenues are recorded at the time of delivery of such products to pipelines for the account of the purchaser or at the time of physical transfer of such products to the purchaser. Revenues from the sale of crude oil and natural gas are recorded using the sales method. Under such method, the Company recognizes revenue from the sale of crude oil and natural gas production from its leases, based on the actual volumes the Company sold during the period.

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. Rental income for residential property leases is recorded when due from residents and is recognized monthly as it is earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all short-term deposits and money market investments with a maturity of less than three months to be cash equivalents.

Other Intangible Assets

The cost of acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives. The carrying amount of each intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary. Impairment of Notes Receivable

Notes receivable are identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the note agreements. The accrual of interest is discontinued on such notes, and no income is recognized until all past due amounts of principal and interest are recovered in full. No notes were deemed to be impaired at December 31, 2004 and 2003.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets and certain identifiable intangibles for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In reviewing recoverability, the Company estimates the future cash flows expected to result from use of the assets and eventually disposing of them. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized based on the asset's fair value.

The Company determines the fair value of assets to be disposed of and records the asset at the lower of fair value less disposal costs or carrying value. Assets are not depreciated while held for disposal.

Stock Options

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) in its primary financial statements and has provided supplemental disclosures required by Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation" and by Statement of Financial Accounting

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Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure an Amendment of SFAS No. 123."

Options were granted at market by Cabeltel International Corporation during 2003, are exercisable immediately, and expire 5 years from date of grant.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Warrants were issued at market by Cabeltel International Corporation during 2004. The ability to exercise such warrants is contingent upon the conversion of the Series J Preferred stock to common stock. Because of the contingent nature as to the timing and the ability to exercise these warrants, no value has been ascribed to such warrants at December 31, 2004.

SFAS 123 requires disclosure of pro forma net earnings (loss) and pro forma net earnings (loss) per share as if the fair value method had been applied in measuring compensation cost for stock-based awards.

Reported and pro forma net earnings (loss) and net earnings (loss) per share amounts are set forth below (in thousands, except per share data):

| | 2004 | 2003 | 2002 |
|--|-----------|---------|------------|
| | | | |
| Net earnings (loss) allocable to common stockholders | | | |
| As reported | \$ (816) | \$ 222 | \$ (8,377) |
| Deduct: total stock-based compensation under fair value based method for all awards | -- | (43) | (464) |
| Pro forma | \$ (816) | \$ 179 | \$ (8,841) |
| Net earnings (loss) per share | | | |
| As reported | \$ (0.84) | \$ 0.31 | \$ (23.33) |
| Pro forma | \$ (0.84) | \$ 0.25 | \$ (24.63) |

The fair value of these options was estimated at the date of grant during 2003 using the Black-Scholes option pricing model with the following weighted-average assumptions: no dividends; expected volatility of 20 percent; risk-free interest rates of 4.24 percent; and weighted average expected lives of 5 years.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based on the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. In 2004, stock options for approximately 140,000 shares were excluded from diluted shares outstanding because their effect was anti-dilutive. In 2004, warrants for approximately 190,000 shares were excluded from diluted shares outstanding

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because their effect was anti-dilutive.

Sales of Real Estate

Gains on sales of real estate are recognized to the extent permitted by SFAS No. 66, "Accounting for Sales of Real Estate." Until the requirements of SFAS No. 66 have been met for full profit recognition, sales are accounted for by the installment or cost recovery method, whichever is appropriate.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Real Estate Held for Sale

SFAS No. 144 requires that properties held for sale be reported at the lower of carrying amount or fair value less costs of sale. If a reduction in a held for sale property's carrying amount to fair value less costs of sale is required, a provision for loss is recognized by a charge against earnings. Subsequent revisions, either upward or downward, to a held for sale property's estimated fair value less costs of sale are recorded as an adjustment to the property's carrying amount, but not in excess of the property's carrying amount when originally classified as held for sale. A corresponding charge against or credit to earnings is recognized. Properties held for sale are not depreciated.

New Accounting Pronouncements

SFAS No. 151--In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4" ("SFAS No.151"). SFAS No. 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the consolidated financial position or results of operations of CIC.

SFAS No. 152--In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 152, "Accounting for Real Estate Time-Sharing Transactions" ("SFAS No. 152"). SFAS No. 152 amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2, Accounting for Real Estate Time-Sharing Transactions ("SOP 04-2"). This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2.

SFAS No. 152 is effective for financial statements for fiscal years

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beginning after June 15, 2005, and is to be reported as a cumulative effect of a change in accounting principle. The adoption of SFAS No. 152 is not expected to have a material impact on the consolidated financial position or results of operations of CIC.

SFAS No. 123--In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Share-Based Payment, revised ("SFAS No. 123R"). SFAS No. 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS No. 123R will be effective for periods beginning after June 15, 2005, and allows, but does not require, companies to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS No. 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. The adoption of SFAS No. 123R is not expected to have a material impact on the Company's consolidated financial position or results of operations. See Stock-Based Employee Compensation for the pro forma impact on net income and net income per share from calculating stock-based compensation costs under the fair value alternative of SFAS No. 123.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

SFAS No. 153--In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153, "Exchanges of Non-monetary Assets, an Amendment of APB Opinion No. 29" ("SFAS No. 153"). The guidance in APB Opinion No. 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the consolidated financial position or results of operations of CIC.

NOTE C - NOTES RECEIVABLE

As a result of the sale of two assisted living communities in 2001, the Company holds two tax-exempt notes for a total of \$4,030,000, bearing interest at 9.5%. The notes mature on April 1, 2032 and August 1, 2031.

The repayment of the notes and interest thereon is limited to the cash flow of the respective properties either from operations, refinancing or sale. The Company has deferred gains in the amount of \$3,721,000 as well as unpaid interest, which will be recognized as cash is received.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate values at December 31, 2004 and 2003:

Cash and cash equivalents - The carrying amount approximates fair value because of the short maturity of these instruments.

Long-term debt - The fair value of the Company's long-term debt is estimated based on market rates for the same or similar issues. The carrying value of long-term debt approximates its fair value.

Notes receivable-- The fair value of the note receivable from an affiliate partnership is estimated to approximate fair value based on its short maturity. It is not practical to estimate the fair value of notes receivable from sale of properties because no quoted market exists and there are no comparable debt instruments to provide a basis for valuation.

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NOTE E - NOTES PAYABLE

LONG TERM DEBT

Long-term debt is comprised of the following (in thousands):

| | December 31, | |
|--|---------------|--------------|
| | 2004 | 2003 |
| Notes payable to financial institutions maturing through 2018; fixed and variable interest rates ranging from 5.75% to 11% collateralized by real property, fixtures, equipment and the assignment of rents | 7,627 | 2,109 |
| Notes payable to individuals and companies maturing through 2023; variable and fixed interest rates ranging from 10% to 18%; collateralized by real property, personal property, fixtures, equipment and the assignment of rents | 4,590 | 4,106 |
| Notes payable to related parties bearing interest at rates ranging From 15% to 18% | 901 13,118 | 528 6,743 |
| Less current maturities | 4,780 | 4,690 |
| | 8,338 | 2,053 |

Aggregate annual principal maturities of long-term debt at December 31, 2004 are as follows (in thousands):

| | |
|------------|-------|
| 2005 | 4,780 |
| 2006 | 1,118 |
| 2007 | 250 |
| 2008 | 273 |
| 2009 | 6,085 |
| Thereafter | 612 |

 \$ 13,118
 =====

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NOTE F - OPERATING LEASES

The Company leases an assisted living community under an operating lease in which the basic term expires December 31, 2011, and has operating leases for equipment and office space. The leases generally provide that the Company pay property taxes, insurance and maintenance.

Future minimum payments following December 31, 2004, are as follows (in thousands):

| | |
|------------|----------|
| 2005 | \$ 898 |
| 2006 | 898 |
| 2007 | 914 |
| 2008 | 853 |
| 2008 | 870 |
| Thereafter | 2,717 |
| | ----- |
| | \$ 7,150 |
| | ===== |

Lease expense in 2004, 2003 and 2002 was \$917, \$969, and \$1,112, respectively.

NOTE G - AFFILIATED PARTNERSHIP

In October 2001, the Company became a 56% limited partner in Corinthians Real Estate Investors, LP ("CREI"), a partnership formed to acquire two properties. In October 2001, CREI acquired a retirement community for approximately \$9,100,000 and in January 2002, it acquired an assisted living community for approximately \$2,800,000.

The Company issued a \$1,600,000 note to the seller in 2001 as partial payment for the purchase of the retirement community. CREI gave the Company a \$1,600,000 note in consideration for payment of that amount of the purchase price. The notes bear interest at 8.75% and were due December 30, 2003. The balance of the purchase price was funded by borrowings of CREI from a third party in the amount of \$7,840,000, which was guaranteed by the Company.

The Company accounted for its investment in CREI by the equity method. The Company recorded income of \$131,733 in 2003 and a loss of \$692,338 in 2002. These amounts are included in other income (expense), net in the accompanying financial statements.

In January 2002 the Company became a 56% limited partner in a partnership, Muskogee Real Estate Investors (MREI), which acquired two assisted living communities in Muskogee, OK, including one community acquired from the Company. In September 2002 MREI leased the two communities to a third party for three years. The lessee has committed to purchase the two properties during the three-year period for \$6,000,000. The current debt on the

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property is approximately \$4,000,000.

The Company had a note to Sylvia M. Gilley, wife of the former CEO of the Company, for \$3,375,000. In November 2002, the Company transferred its 56% interest in MREI to Mrs. Gilley in exchange for a reduction of \$1,120,000 on the debt and a one-year extension on the due date of the Company's note to Mrs. Gilley. The Company recognized a gain of \$929,956 on the transaction.

The Company accounted for its investment in MREI using the equity method. The Company recorded income of \$80,215 during 2002.

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NOTE G - AFFILIATED PARTNERSHIP - Continued

In September 2002, CREI sold its two properties for cash and notes and paid off its third party debt. As part of the proceeds, CREI received a note for \$1,600,000, which was transferred to the Company in satisfaction of its \$1,600,000 note receivable from CREI.

The Company transferred the \$1,600,000 note it received in 2002 to the original owner of the retirement community in payment of the Company's \$1,600,000 debt. The Company guaranteed payment of the \$1,600,000 note.

CREI recognized a gain on sale in the amount of \$1,322,000. The Company has deferred recognition of its \$740,000 share of the gain because of the aforementioned guaranty. CREI has deferred a gain on sale in the amount \$994,000 that will be recognized on the installment method.

The Company also entered into an agreement in October 2002 wherein it would be allowed to participate in the acquisition of twelve communities and receive a 50% partnership interest. The Company agreed to pay

\$660,000, payable at \$55,000 per month, from October 2002 through September 2003 to pay for due diligence required by these acquisitions. The Company's \$660,000 obligation was accrued and charged to expense in 2002.

In 2004, the purchaser of the CREI paid off the remaining notes, including the \$1,600,000 note guaranteed by the Company. The Company realized its deferred gain of \$740,000 as well as \$492,000, representing its 56% share of the proceeds received by CREI on its outstanding note net of partnership expenses.

Following is the unaudited condensed financial statements of CREI at December 31, 2002 (in thousands):

Balance Sheet

| | 2002 |
|---------------------|----------|
| Current assets | \$ 67 |
| Notes receivable | 994 |
| Other assets | 171 |
| | ----- |
| | \$ 1,232 |
| Current liabilities | \$ 248 |
| Deferred gain | 994 |
| | ----- |
| | 1,242 |

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| | | |
|----------------------------|-------------------------|----------|
| Partners' equity (deficit) | | (10) |
| Distributions | | -- |
| | | ----- |
| | | \$ 1,232 |
| | Statement of Operations | |
| Revenue | | \$ 2,233 |
| Expenses | | |
| Operating | | 1,284 |
| Depreciation | | 747 |
| General and administrative | | 111 |
| Interest | | 1,328 |
| | | ----- |
| | | 3,470 |
| Gain on sale of properties | | 1,322 |
| | | ----- |
| Net income | | \$ 85 |
| | | ===== |

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NOTE H - EARNINGS PER SHARE

The following table sets forth the computations of pro forma basic and diluted earnings per share from continuing operations (in thousands, except per share data):

| | Year ended December 31, | | |
|--|-------------------------|---------|------------|
| | 2004 | 2003 | 2002 |
| Numerator: | | | |
| Net income (loss) from continuing operations | \$ (632) | \$ 617 | \$ (3,470) |
| Denominator: | | | |
| Shares used in basic earnings per share calculation | 977 | 706 | 71 |
| Effect of diluted securities: | | | |
| Employee stock options | -- | 80 | -- |
| Warrants | -- | -- | -- |
| Shares used in diluted earnings per share calculations | 977 | 1,057 | 71 |
| Pro forma basic earnings per share | \$ (0.65) | \$ 0.87 | \$ 4.8 |
| Pro forma diluted earnings per share | \$ (0.65) | \$ 0.54 | \$ 4.8 |

NOTE I - INCOME TAXES

At December 31, 2004, the Company had net operating loss carry forwards of approximately \$23,000,000, which expire between 2004 and 2022. However, approximately \$7,900,000 of these net operating loss carryforwards have limitations that restrict utilization to approximately \$1,530,000 for any one year.

The following is a summary of the components of income tax expense of continuing operations (in thousands):

| | Year ended December 31, | | |
|--------------------|----------------------------|-------|-------|
| | 2004 | 2003 | 2002 |
| Current - state | \$ -- | \$ -- | \$ -- |
| Deferred - federal | -- | -- | 749 |
| | -- | -- | 749 |

Deferred tax assets and liabilities were comprised of the following (in thousands):

| | Year ended December 31, | |
|---|----------------------------|----------|
| | 2004 | 2003 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 7,869 | \$ 7,163 |
| Notes receivable | -- | 680 |
| Alternative minimum tax carryforwards | 324 | 235 |
| Accounts receivable | -- | -- |
| Accrued expenses | -- | 2,241 |
| Financing obligations | -- | -- |
| Other | 386 | 583 |
| Total deferred tax assets | 8,579 | 10,902 |
| Deferred tax liabilities - property and equipment | -- | (3,198) |
| Valuation allowance | (7,418) | (6,543) |
| Net deferred tax asset | \$ 1,161 | \$ 1,161 |

Following is a reconciliation of income tax expense attributable to continuing operations with the amount of tax computed at the federal statutory rate of 34% (in thousands):

Year ended

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| | 2004 | December 31, 2003 | 2002 |
|--|----------|----------------------|------------|
| Tax expense (benefit) at the statutory rate | \$ (216) | \$ 75 | \$ (1,019) |
| State taxes net of federal benefit | -- | -- | -- |
| Change in deferred tax asset valuation allowance, attributable to continuing operations | 216 | (75) | 1,768 |
| Other | -- | -- | -- |
| | | | |
| Tax expense | \$ -- | \$ -- | 749 |

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NOTE I - INCOME TAXES - Continued

Changes in the deferred tax valuation allowance result from assessments made by the Company each year of its expected future taxable income available to absorb its carryforwards. The Company believes that it is more likely than not that the net deferred tax asset at December 31, 2004, of \$1,161,000 will be realized. However, this evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, the ultimate realization of the net deferred tax asset could be less than the carrying amount.

NOTE J - STOCKHOLDERS' EQUITY

Outstanding Preferred Stock

Preferred stock consists of the following (amounts in thousands):

| | Year ended December 31, 2004 | 2003 |
|---|------------------------------------|-------|
| Series B cumulative convertible preferred stock, \$.10 par value; liquidation value of \$100; authorized, 100 shares; issued and outstanding, 1 share | \$ 1 | \$ 1 |
| Series J cumulative non-convertible preferred stock, \$.10 par value; liquidation value of \$1,000; authorized, 31,500 shares; issued and outstanding, 31,500 shares | \$ 3,150 | \$ -- |

The Series B preferred stock has a liquidation value of \$100 per share and is convertible into common stock over a ten-year period at prices escalating from \$500 per share in 1993 to \$1,111 per share by 2002. The right to convert expired April 30, 2003. Dividends at a rate of 6% are payable in cash or preferred shares at the option of the Company.

The Series J stock is non-convertible, however, the Company has agreed to

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hold a shareholder vote to allow the Series J shareholders to covert their 31,500 shares of preferred into 8,788,000 shares of the Company's common stock

Stock Options

In 1997, the Company established a long-term incentive plan (the "1997 Plan") for the benefit of certain key employees. Options granted to employees under the 1997 Plan become exercisable over a period as determined by the Company and may be exercised up to a maximum of 5 years from date of grant. The 1997 Plan allowed up to 50,000 shares of the Company's common stock to be reserved for issuance. In 2000, the Company adopted the 2000 Stock Option Plan, under which up to 50,000 shares of the Company's common stock are reserved for issuance.

The Company granted options to two officers during 1996 through 2001, aggregating 80,000 shares not covered by either plan. These options were granted at market, were exercisable immediately and expire 10 years from date of grant.

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NOTE J - STOCKHOLDERS' EQUITY - Continued

Information with respect to stock option activity is as follows:

| | Shares | Weighted Average exercise price |
|---|----------|--|
| | ----- | ----- |
| Outstanding at January 1, 2002 | 160,850 | \$ 81.28 |
| Expired | (5,050) | 182.58 |
| | ----- | ----- |
| Outstanding at December 31, 2002 | 155,800 | 78.00 |
| Granted | 60,000 | 2.60 |
| Cancelled, rescinded or annulled | (70,800) | 109.27 |
| Expired | (3,000) | 112.50 |
| Outstanding at December 31, 2003 and 2004 | 142,000 | \$ 30.27 |
| | ===== | ===== |
| Options exercisable at December 31, 2002 | 155,800 | \$ 78.00 |
| | ===== | ===== |
| Options exercisable at December 31, 2003 and 2004 | 142,000 | \$ 30.27 |
| | ===== | ===== |

Weighted average fair value per share of options granted during 2003 and 2001 was \$0.71 and \$7.60, respectively.

Additional information about stock options outstanding at December 31, 2004, is summarized as follows:

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| Options outstanding and exercisable | | | |
|-------------------------------------|--------------------|---|---------------------------------|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual life | Weighted average exercise price |
| \$2.60 | 60,000 | 4.0 | \$ 2.60 |
| \$3.75 to \$6.90 | 60,000 | 6.0 | 5.68 |
| \$100.00 to \$150.39 | 2,000 | 1.0 | 150.39 |
| \$175.00 | 20,000 | 3.0 | 175.00 |

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NOTE K - OTHER INCOME (EXPENSE)

Other income (expenses) consists of the following: (amounts in thousands)

| | Year ended December 31, | | |
|--|-------------------------|---------------|-------------------|
| | 2004 | 2003 | 2002 |
| Equity in earnings of CREI | -- | 131 | (692) |
| Property acquisition due diligence expense | -- | -- | (660) |
| Write off start up costs in projects not completed | (167) | -- | -- |
| Accrued tenant revenue | -- | 121 | -- |
| Other | (236) | 90 | 199 |
| | <u>\$ (403)</u> | <u>\$ 342</u> | <u>\$ (1,153)</u> |

NOTE L - DISCONTINUED OPERATIONS AND SALES OF REAL ESTATE

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes FASB SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions for disposals of a segment of a business as addressed in APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and addresses various implementation issues of SFAS No. 121. In addition, SFAS No. 144 extends the reporting requirements of discontinued operations to include components of an entity that has either been disposed of or is classified as held for sale. The Company adopted SFAS No. 144 as of January 1, 2002.

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During 2004, the Company disposed of an assisted living community and entered into a contract to sell a second assisted living community, which has been reflected as an asset held for sale. Revenue for the two properties was \$841,000, \$1,986,000 and \$1,122,000 in 2004, 2003 and 2002, respectively. The net loss for the two properties was \$, \$184,000, \$395,000 and \$272,000 in 2004, 2003 and 2002, respectively.

During 2002, the Company disposed of six properties. The net loss from the operations of these properties was \$627,000 and the loss incurred from the sale of these properties was \$4,001,000 (including income tax of \$440,000).

NOTE M - SEGMENT REPORTING

The Company and its subsidiaries are principally engaged in the business of acquiring, enhancing and selling real estate properties. From 1996 until 2003 those activities almost exclusively involved assisted living facilities. Effective August 1, 2003, the Company acquired 100% of the stock in Gaywood Oil & Gas, LLC ("Gaywood"), a limited liability company that owns working interests in certain oil-producing wells. The acquisition was done for investment purposes and substantially all costs associated with the oil and gas operations are operating expenses incurred directly by Gaywood. The Company continues to allocate all of its corporate overhead expenses to its core real estate operation.

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NOTE M - SEGMENT REPORTING - Continued

Segment information and reconciliation to income (loss) from operations are as follows:

Twelve months ended December 31, 2004 (amounts in thousands)

| | Real Estate Operations | Oil & Gas Operations | Consolidated |
|--|---------------------------|-------------------------|--------------|
| | | | |
| Revenue | \$ 4,813 | \$ 1,410 | \$ 6,223 |
| Depletion, depreciation and amortization | 462 | 108 | 570 |
| Net income (loss) | (1,115) | 299 | (816) |
| Total assets | 15,150 | 1,616 | 16,766 |

NOTE N - CONTINGENCIES

Cable Partners Bulgaria LLC vs. Greenbriar Corporation and Ronald C. Finley

On January 24, 2005, a lawsuit was filed in the District Court of Dallas County, Texas by Cable Partners Bulgaria LLC ("CPB") a Colorado limited liability company, against the Company. The lawsuit states that on October 12, 2004, CPB entered into a letter agreement with the owners of Eurocom to acquire the assets of Eurocom, a cable operator in the city of Plovdiv, Bulgaria. The lawsuit further indicates that the October 12, 2004, letter outlines a time line for the completion of due diligence by CPB. The lawsuit

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states that in November 2004, a conversation occurred between a representative of CPB and Ronald Finley, CEO of both CIC and CableTEL, during which time such representative told Mr. Finley that CPB had an agreement to purchase Eurocom.

The lawsuit alleges that CIC intentionally and improperly caused the sellers of Eurocom to enter into discussions with CableTEL which ultimately led to CableTEL entering into a separate and competing contract to purchase Eurocom. CPB alleges that the Company's interference was improper and that CPB has been damaged in the amount of at least \$5,387,400. The lawsuit further alleges that CPB's letter agreement provided for a three-year management agreement with the sellers of Eurocom and that CPB was further damaged by the loss of the experience, expertise and contacts of the sellers of Eurocom in an amount to be determined at trial. CPE further seeks exemplary damages of an unspecified amount.

The Company believes the lawsuit is totally without merit. CableTEL had been holding discussions, conducting due diligence and had agreements in place with the owners of Eurocom well before either the alleged November conversation or the October 12, 2004, letter. In addition, the Company believes the lawsuit misstates certain key facts, which could prove to be critical in CPB's ability to prevail in this matter.

Other

The Company has been named as a defendant in other lawsuits in the ordinary course of business. Management is of the opinion that these lawsuits will not have a material effect on the financial condition, results of operations or cash flows of the Company.

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NOTE O - QUARTERLY DATA (UNAUDITED)

The table below reflects the Company's selected quarterly information for the years ended December 31, 2003 and 2002. Certain 2003 and 2002 amounts have been reclassified to conform to the current presentation of discontinued operations. All amounts shown are in thousands.

| Year ended December 31, 2004 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Revenue | \$ 1,806 | \$ 1,720 | \$ 1,947 | \$ 750 |
| Operating expenses | 1,709 | 1,799 | 1,677 | 1,945 |
| Net income (loss) | (175) | (205) | 623 | (1,059) |
| Income (loss) allocable to common shareholders | (175) | (205) | 623 | (1,059) |
| Income (loss) per common share - basic and diluted | (.18) | (.21) | .64 | (1.09) |
| Year ended December 31, 2003 | | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Revenue | \$ 1,070 | \$ 1,118 | \$ 1,342 | \$ 1,774 |
| Operating expenses | 1,266 | 1,235 | 1,491 | 1,819 |
| Net income (loss) | (262) | (177) | 855 | (194) |

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| | | | | |
|--|-------|-------|------|-------|
| Income (loss) allocable to common shareholders | (262) | (177) | 855 | (194) |
| Income (loss) per common share - basic and diluted | (.38) | (.26) | 1.21 | (.27) |

NOTE P - SUPPLEMENTAL RESERVE INFORMATION (UNAUDITED)

The Company's net proved oil and natural gas reserves as of December 31, 2004 and 2003 (when Gaywood was purchased), have been estimated by Company personnel in accordance with guidelines established by the Securities and Exchange Commission. Accordingly, the following reserve estimates were based on existing economic and operating conditions. Oil and gas prices in effect at December 31 of each year were used. Operating costs, production and ad valorem taxes and future development costs were based on current costs with no escalation.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production and timing of development expenditures. The following reserve data represents estimates only and should not be construed as being exact. Moreover, the present values should not be construed as the current market value of the Company's oil and gas reserves or the costs that would be incurred to obtain equivalent reserves.

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NOTE P - SUPPLEMENTAL RESERVE INFORMATION (UNAUDITED) - Continued

Changes in Estimated Quantities of Proved Oil and Gas Reserves (Unaudited):

| Quantities of Proved Reserves: | Crude Oil Bbls | Natural Gas Mcf |
|---------------------------------|-------------------|--------------------|
| Balance August 2003 | 500,090 | -- |
| Sales of reserves in place | -- | |
| Acquired properties | -- | |
| Revisions of previous estimates | 29,017 | |
| Production | (18,217) | |
| | | |
| Balance December 31, 2003 | 510,890 | -- |
| Sales of reserves in place | -- | |
| Acquired properties | -- | |
| Revisions of previous estimates | (82,971) | 38,870 |
| Production | (46,849) | |
| | | |
| Balance December 31, 2004 | 381,070 | 38,870 |
| | | |
| Proved Developed Reserves: | | |
| Balance December 31, 2003 | 510,890 | -- |

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Balance December 31, 2004

381,070

38,870

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein
Relating to Proved Oil and Gas Reserves (Unaudited)

The Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves ("Standardized Measures") does not purport to present the fair market value of a company's oil and gas properties. An estimate of such value should consider, among other factors, anticipated future prices of oil and gas, the probability of recoveries in excess of existing proved reserves, the value of probable reserves and

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NOTE P - SUPPLEMENTAL RESERVE INFORMATION (UNAUDITED) - Continued

acreage prospects, and perhaps different discount rates. It should be noted that estimates of reserve quantities, especially from new discoveries, are inherently imprecise and subject to substantial revision.

Reserve estimates were prepared in accordance with standard Security and Exchange Commission guidelines. The future net cash flow was computed using year-end 2004, oil and gas prices. Lease operating costs, compression, dehydration, transportation, ad valorem taxes, severance taxes and federal income taxes were deducted. Costs and prices were held constant and were not escalated over the life of the properties. No deduction has been made for interest or general corporate overhead. The annual discount of estimated future cash flows is defined, for use herein, as future cash flows discounted at 10% per year, over the expected period of realization.

Proved Developed Reserves were calculated based on Decline Curve Analysis on 22 operating wells and 15 non-operated wells.

During 2004, the Company continued to operate the producing wells it acquired in 2003. The Company controls nearly 200 leases but only had 48 wells in production on December 31, 2004.

The Company controls 68 leases which were abandoned by larger oil and gas companies in the past due to low production. The Company's operating wells average from 70 to 360 barrels per month. Due to low production and relatively high overhead the Company estimates that its production would be unprofitable if the price of oil fell below \$24 per barrel.

Standardized measure of discounted future net cash flows related to proved reserves:

| | Year Ended December 31, | |
|---------------------------|-------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Future production revenue | \$19,371,000 | \$16,370,000 |
| Future development costs | 83,000 | 285,000 |
| Future production costs | 11,394,000 | 11,980,000 |
| | ----- | ----- |

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| | | |
|---|--------------|------------|
| Future net cash flow before federal income tax | 7,894,000 | 4,105,000 |
| Federal income tax | 2,684,000 | 1,396,000 |
| | ----- | ----- |
| Future net cash flows | 5,210,000 | 2,709,000 |
| Effect of 10% annual discounting | 3,963,000 | 2,060,000 |
| | ----- | ----- |
| Standardized measure of Discounted net cash flows | \$ 1,247,000 | \$ 649,000 |
| | ===== | ===== |

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NOTE P - SUPPLEMENTAL RESERVE INFORMATION (UNAUDITED) - Continued

Changes in the standardized measure of discounted future net cash flows:

| | Year Ended December 31, | |
|---|-------------------------|------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Beginning of the year | \$ 649,000 | \$ -- |
| Oil and gas sales, net of production costs | (407,000) | (49,000) |
| Purchases of reserves in place | -- | 655,000 |
| Sales reserves in place | -- | -- |
| Net change in prices, net of production costs | 839,000 | 291,000 |
| Changes in production rates, timing and other | | |
| Revisions of quantity estimate | 469,000 | |
| Effect of income tax | (417,000) | (337,000) |
| Accretion of discount | 114,000 | 89,000 |
| | ----- | ----- |
| Standardized measure of Discounted net cash flows | \$ 1,247,000 | \$ 649,000 |
| | ===== | ===== |

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