

MIGAO CORPORATION

Becoming China's Leading Specialty Potash Fertilizer Enterprise

Annual Report 2006

Fiscal Year Ended September 30, 2006

Prepared by Management of Migao Corporation
(formerly "Fox Mountain Explorations Ltd.")

January 15, 2007



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Stock Exchange

TSX Venture Exchange: MGO

Annual Meeting

Tuesday, February 27th, 2007 at 4:30 pm
Toronto Board of Trade, One First Canadian Place, Toronto

Management's Discussion and Analysis

Fiscal Year Ended September 30, 2006

Prepared by Management

January 15, 2007

Introduction

This management's discussion and analysis ("MD&A") relates to the consolidated financial condition and results of operations of Migao Corporation (the "Company" or "Migao") together with its subsidiaries in the People's Republic of China ("China"). As used herein, the word "Company" means, as the context requires, Migao and its subsidiaries. The common shares of Migao are listed on the TSX Venture Exchange (the "Exchange"). Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (Canadian GAAP). This MD&A should be read in conjunction with Migao's audited consolidated financial statements for the year ended September 30, 2006, and notes thereto. Additional information relating to Migao Corporation can be found on the SEDAR website for the Canadian regulatory filings at www.sedar.com.

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Migao bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

All references to "\$" or "dollars" in this report refer to the Canadian dollar unless otherwise noted.

At September 30, 2006, the Company had 29,111,921 common shares outstanding. At January 15, 2007, the Company has 29,165,370 common shares outstanding.

Caution Regarding Forward Looking Information

Certain statements made in this MD&A that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address Migao's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. Readers should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at January 15, 2007.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the Risk Factors section starting on page 15.

Consolidated Overview

Migao, through its wholly-owned subsidiaries (referred herewith as "Sichuan Migao", "Guangdong Migao" and "Liaoning Migao"), owns and operates fertilizer production plants in various strategic locations in China for the production and sales of specialty potash fertilizer (potassium nitrate and potassium sulphate), along with their by-products, to the Chinese domestic agricultural market. These fertilizers provide China's economic crop (i.e. fruit, vegetable and tobacco) growers added opportunities for improving crop quality and increasing crop yield in an environmentally responsible manner, and contributing to the overall agricultural development of China.

China's considerable research efforts in defining both soil potassium fertility and, concurrently, potash requirements to meet national crop production goals and individual farm income expectations have resulted in rising potash consumptions. As well, such research produced the realization and understanding that the type of potassium-bearing fertilizer used could augment crop yield and quality which can collectively improve farmers' income. Migao is positioned to capitalize on the value added chemical fertilizer market in China.

During the year, Migao operated all of its existing facilities, namely the Sichuan, Guangdong and Liaoning facilities at full capacity. Liaoning Migao completed its Phase I construction and was put into operation in December 2005, with annual design production capacity of 40,000 tonnes of potassium sulphate and 48,000 tonnes of the by-product hydrochloric acid. Liaoning Migao attained full production capacity at the end of March 2006.

Corporate Highlights

- As of September 30, 2006, the Company's design production capacity was at 120,000 tonnes of potassium nitrate and potassium sulphate (\$58.3 million of revenue for the year ended September 30, 2006), compared to 40,000 tonnes as of September 30, 2004 (\$15.6 million of revenue for the year ended December 31, 2004).
- With the completion of Shanghai Migao expansion by the end of calendar 2007, the annual design production capacity of potassium nitrate and potassium sulphate shall be at 260,000 tonnes by the end of calendar 2007. As well, the design production capacity includes an additional 260,000 tonnes per year of by-product at the end of calendar 2007.
- The Company expects the specialty potash-based fertilizer market shall grow, due to the urbanization and increased standard of living China. As well, the sales under long-term contracts cover a large percentage of its total sales.

The cash balance of \$16.3 million as of September 30, 2006 is sufficient to fund the expansions currently ongoing.

Notable Events

- On May 3, 2006, shareholders of Fox Mountain Explorations Ltd. ("Fox") approved the transaction whereby Fox acquired 100% of the shares of H.K. Migao Industry Limited ("HK Migao") under a reverse takeover.
- On May 18, 2006 (the "Closing Date"), the combined company changed its name to "Migao Corporation". On the same date, Migao completed a private placement financing for a gross amount of \$18.1 million of subscription receipts at a price of \$2.85 per unit, totalling 6,363,000 units, with each unit consisting of one common share and one-half of one additional common share purchase warrant of Migao. Each whole warrant will entitle the holder to purchase one common share, at a price of \$3.70, for a period of 24 months following the Closing Date.
- On May 25, 2006, Migao was listed on the TSX Venture Exchange under the stock symbol "MGO".
- On June 7, 2006, the entire long-term debt in the amount of RMB 45,277,733 (\$6,278,482 converted using the exchange rate on June 7, 2006) was converted into 1,846,612 common shares of the Company at \$3.40 per share, the closing trading price on June 7, 2006.

Expansion Projects

Guangdong Migao

For a budgeted capital cost of \$4 million, Guangdong Migao commenced the Phase II potassium sulphate project during the third quarter of fiscal 2006, which includes the following:

- To add 60,000 tonnes of potassium sulphate production. After completion, the potassium sulphate production capacity will reach 100,000 tonnes, with 120,000 tonnes of the by-product hydrochloric acid.

In November 2006, the first 40,000 tonnes of expansion capacity construction was completed with the remaining 20,000 tonnes to be completed early in 2007. The expansion project was on time and on budget.

The increased expansion of production capacity from the originally anticipated addition of 40,000 tonnes of potassium sulphate production is due to the very strong demand for such product in the market place.

Planned construction of the 100,000 tonnes sulphuric acid plant has been postponed in order to focus on the expansion of the potassium sulphate facility as a result of the strong demand for our potassium sulphate product.

Sichuan Migao

For a budgeted cost of \$6 million, Sichuan Migao commenced its Phase III potassium nitrate project. The Phase III potassium nitrate project includes the following:

- To add 40,000 tonnes of potassium nitrate production. After completion, the potassium nitrate production capacity will reach 80,000 tonnes and 45,000 tonnes of ammonium chloride. All figures refer to design capacities, although the Company anticipates that actual production will be 15-20% more, as historically has been achieved.

In November 2006, the first half of this expansion – that is 20,000 tonnes of potassium nitrate and 11,000 tonnes of ammonium chloride production capacities, was completed and put into production on time and under budget. The second half of the expansion, 20,000 tonnes of potassium nitrate and 11,000 tonnes ammonium chloride production capacity, is to be completed prior to the end of fiscal 2007.

Liaoning Migao

Liaoning Migao has completed its projects for the (i) granulation of powdered potassium sulphate and (ii) purification of hydrochloric acid.

Granular Potassium Sulphate Fertilizer

In addition to its primary benefit, use in bulk blended fertilizer, other advantages of granular fertilizers are:

- improved physical properties (e.g. free-flowing after prolonged storage);
- better and easier transportability;
- more uniform distribution pattern when applied to soil; and
- ease of mechanical application to soil.

During the last 20 years, the world fertilizer market has experienced a rapid growth in the use of granular fertilizers, notably in urea, ammonium phosphate, potash and compound fertilizer. In developed countries, such as the USA, granular potash fertilizer accounts for approximately 50% of the entire potash fertilizer production. In China, however, granular fertilizer is relatively new although demand is growing; hence this foreseeable gap between demand and supply in granular potash fertilizer market represents tremendous market potential.

Hydrochloric Acid Purification

Installing the hydrochloric acid purification processes at the Liaoning Migao facility to upgrade the industrial product currently being produced into pharmaceutical grade product will improve the Company's economic opportunity such that the hydrochloric acid may be used in medical and other high-end areas. The opportunity to access markets outside of our industrial grade customer base will, we expect, increase the selling price and gross margin.

These upgrading processes, granular potassium sulphate and purification of hydrochloric acid, serve a number of business development objectives: (i) improve product quality, increase profit margins, and (iii) diversify marketing opportunity. After completion and review of operations, the Company will assess the feasibility and value of implementing these upgrades in Guangdong Migao, Sichuan Migao, and future production facilities.

Shanghai Migao

On November 15, 2006, the Company announced that it will be constructing a new potassium sulphate fertilizer production facility in Shanghai. Shanghai Migao was selected to locate in a new industrial park, with exclusivity in its production area, because of the Company's accomplishments in profitability, clean production technology, and treatment of its employees. Migao views the industrial park as an exceptional site because of its excellent transportation and energy infrastructure and because it is home to key customers for the Company's hydrochloric acid by-product.

Shanghai Migao will initially produce 40,000 tonnes of potassium sulphate fertilizer for high value crop customers, particularly the fruit and vegetable growers who supply the lucrative, quality-conscious Shanghai and east coast markets. Migao has received all preliminary approvals from local government agencies to begin construction. Construction commenced in late November 2006, and is scheduled to be completed and put into production within 12 months. The Shanghai property secured by Migao covers an area that is large enough to expand the potassium sulphate production by an additional 40,000 tonnes.

This new wholly-owned subsidiary is Migao's fourth production facility in China and is eligible for tax breaks similar to those available to Migao's first three facilities. When fully operational, the first phase of the new plant will produce, as a by-product of potassium sulphate production, nearly 50,000 tonnes of hydrochloric acid.

Summary

With the addition of Shanghai Migao, by the end of calendar 2007, the Company expects to be producing close to 300,000 tonnes of specialty potash fertilizers, and 300,000 tonnes of associated by-products. Current fertilizer production is spread across Migao's three operating subsidiaries: Sichuan Migao, Guangdong Migao and Liaoning Migao.

Consolidated Results of Operations

Consolidated Financial Performance

(in thousands of Cdn \$)	FY 2006 (Note 1)	FY 2005 (Note 1)	%	Q4 2006 (Note 2)	Q4 2005 (Note 2 & 3)	%
			change			change
Gross revenue	58,349	39,810	47%	15,434	18,625	(17%)
Gross profit	13,750	9,325	47%	3,626	6,980	(48%)
Gross profit (% of revenue)	24%	23%	4%	24%	37%	(35%)
Selected operating expenses:						
Selling	2,019	1,065	90%	592	533	11%
General and administrative	1,884	1,195	58%	694	500	39%
Professional	500	194	158%	156	194	(19%)
Stock-based compensation	370	–	–	251	–	–
Income taxes	430	–	–	112	–	–
Income taxes (% of revenue)	1%	–	–	1%	–	–
Effective tax rate	5%	–	–	5%	–	–
Net earnings	8,598	6,684	29%	1,956	5,615	(65%)
Net earnings (% of revenue)	15%	17%	(12%)	13%	30%	(57%)
Earnings per share (in \$):						
Basic	0.37	–	–	0.07	–	–
Diluted	0.37	–	–	0.06	–	–

Note 1: "FY" denotes the twelve-month periods ended September 30 for comparative purposes, while on the audited financial statements the comparative column of income statement denotes the nine-month period ended September 30, 2005.

Note 2: "Q4" denotes the three-month period ended September 30.

Note 3: **VAT (value-added tax) Process:** During FY 2005, as per the request from the applicable regulatory bodies, Guangdong facility was asked to withhold issuing invoices to its customers for goods shipped, due to a pending VAT ruling on the taxability of its potassium sulphate product. Virtually all revenue and net earnings associated with the sales of such product for the year was therefore reflected in Q4 for accounting purposes.

Explanation of Consolidated Financial Performance

Gross revenue was \$15.4 million in fiscal Q4 2006 and \$58.3 million in FY 2006, compared to \$18.6 million and \$39.8 million the same periods last year. The significant increase of 47% for the year is mainly due to the Liaoning Migao facility, which commenced production in December 2005 and attained full capacity by the end of March 2006, along with Guangdong Migao, which commenced production in December 2004. Revenue generated by Liaoning Migao for the quarter and the year ended September 30, 2006 were \$4 million and \$12.1 million, respectively. The decline in revenue in Q4 2006 compared to the same period last year is due to the "VAT Process" as referred to in Note 3 on page 7.

Revenues for the quarter ended September 30, 2006 increased by \$0.08 million (or 0.05%) compared with the previous quarter ended June 30, 2006. Guangdong Migao underwent a scheduled maintenance for half of its facility for a three and a half week period during the quarter. Sichuan Migao underwent a scheduled maintenance for ten days during the quarter.

The facilities of the Company, according to their design, are required to undergo scheduled maintenance which results in stoppage of production for a two to four week period, every twelve to eighteen months. The most recent maintenance of Sichuan Migao occurred in September 2006, and was its second maintenance since the facility commenced operation in December 2003, with the first maintenance performed in June 2005. The most recent maintenance in Guangdong Migao

occurred in July 2006, and was its first maintenance since the facility commenced operation in December 2004. Liaoning Migao is anticipated to undergo its first maintenance during the calendar 2007.

The following is a summary of the Company's existing and planned (italicized) facilities and its design production capacities.

	Core Product	Annual Capacity (tonnes)	By-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan					
– <i>Phase I</i>	Potassium Nitrate	20,000	Ammonium Chloride	11,200	December 2003
– <i>Phase II</i>	Potassium Nitrate	20,000	Ammonium Chloride	11,200	September 2004
– <i>Phase III (stage I)</i>	Potassium Nitrate	20,000	Ammonium Chloride	11,200	November 2006
– <i>Phase III (stage II)</i>	Potassium Nitrate	20,000	Ammonium Chloride	11,200	September 2007 (to be completed)
Guangdong Migao					
– <i>Phase I</i>	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2004
– <i>Phase II (stage I)</i>	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	November 2006
– <i>Phase II (stage II)</i>	Potassium Sulphate	20,000	Hydrochloric Acid	24,000	February 2007 (to be completed)
Liaoning					
– <i>Phase I</i>	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Shanghai					
– <i>Phase I</i>	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	November 2007 (to be completed)
Total		260,000		260,800	

Note: "Annual Capacity" denotes the design capacities of the facilities. Actual productions have been exceeding design capacities by approximately 10% annually.

The Company continues to see strong demand for its core products: potassium nitrate and potassium sulphate, as well as its by-products: ammonium chloride and hydrochloric acid.

Migao earns all of its revenues in Chinese Renminbi. Accordingly, reported revenues will fluctuate with changes in the exchange rate to Canadian dollars. The average exchange rates for the quarter and year ended September 30, 2006 were \$0.1407 and \$0.1424 to 1 Chinese Renminbi, respectively. The average exchange rates for the quarter and year ended September 30, 2005 were \$0.1473 and \$0.1479 to 1 Chinese Renminbi, respectively. The average exchange rate for the previous quarter ended June 30, 2006 was \$0.1401 to 1 Chinese Renminbi.

The Company earns virtually all of its revenues in China, with only minor export sales. At the moment, there is no plan to expand into exporting products on a large scale, as the Chinese demand for its products is far from satiated.

Gross profit was \$3.6 million in fiscal Q4 2006 and \$13.8 million in FY 2006, compared to \$7 million and \$9.3 million the same periods last year. Gross margin as a percentage of sales was 24% in both fiscal Q4 2006 and FY 2006, compared to 37% and 23% the same periods last year. The decline in gross profit in Q4 2006 compared to the same period last year is due to the "VAT Process" as referred to in Note 3 on page 7.

Increases in gross profit and relatively stable gross margin for the year compared to last year are a result of increased production capacities and stable and matured technology and markets.

Gross margin as a percentage of sales for the quarter ended September 30, 2006 increased by 4% to 24% (from 20%) compared with the previous quarter ended June 30, 2006. The increase in gross margin is mainly due to the recovery from the relatively lower selling price of the hydrochloric acid by-product during the quarter ended June 30, 2006. We continue to experience strong demand for all of the products, including the by-products in the market place.

General and administrative expenditures were \$0.7 million in fiscal Q4 2006 and \$1.9 million in FY 2006, compared to \$0.5 million and \$1.2 million the same periods last year. General and administrative expenditures as a percentage of sales were 4% in fiscal Q4 2006 and 3% in FY 2006, compared to 3% and 3% the same periods last year.

General and administrative expenditures for the quarter ended September 30, 2006 increased by \$0.15 million (or 27%) compared with the previous quarter ended June 30, 2006. The increase in general and administrative expenses comparing to the previous quarter is mainly due to the increased related costs of Guangdong Migao expansion project undergone during the quarter.

General and administrative expenditures include personnel costs for production, finance, human resources and management staff as well as facilities expenses, supplies and equipment depreciation. These costs are, for the most part, fixed and do not fluctuate significantly in relation to revenues. However, they tend to increase, although at a lesser proportion, with the increase of production capacity, as well as during periods of construction of expansion.

Selling expenditures were \$0.6 million in fiscal Q4 2006 and \$2 million in FY 2006, compared to \$0.5 million and \$1 million the same periods last year. Selling expenditures as a percentage of sales were 4% in fiscal Q4 and 3% in FY 2006, compared to 3% and 3% the same periods last year.

Selling expenditures for the quarter ended September 30, 2006 increased by \$0.4 million (or 207%) compared with the previous quarter ended June 30, 2006. The increase in selling expenses is mainly due to the related costs associated with the expansion projects at Guangdong and Sichuan Migao during the quarter.

Selling expenditures also include transportation and related costs incurred for delivery of goods to customers and depreciation on capital assets used by the sales department.

Net incomes were \$2 million in fiscal Q4 2006 and \$8.6 million in FY 2006, compared to \$5.6 million and \$6.7 million the same periods last year. Net incomes as a percentage of sales were 13% in fiscal Q4 and 15% in FY 2006, compared to 30% and 17% the same periods last year. The decline in net incomes in Q4 2006 compared to the same period last year is due to the "VAT Process" as referred to in Note 3 on page 7.

Net income for the quarter ended September 30, 2006 decreased slightly by \$0.05 million (or 2%) compared with the previous quarter ended June 30, 2006. The relatively stable net income is a combination of same or similar production capacities of the facilities, improved gross margin and the offsetting factor of higher operating expenses.

Quarterly Results of Operations

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands of Cdn \$)	2006	2006	2006	2006	2005	2005	2005	2005
Gross revenue	15,434	15,426	15,100	12,388	18,625	6,847	7,031	7,307
Gross profit	3,626	3,113	4,310	2,701	6,980	520	429	1,396
Gross profit (% of revenue)	24%	20%	29%	22%	37%	8%	6%	19%
Selected operating expenses:								
Selling	592	193	771	463	533	231	135	166
General and administrative	694	545	367	278	500	344	175	176
Professional	156	124	67	151	194	-	-	-
Stock-based compensation	251	120	-	-	-	-	-	-
Income taxes	112	161	157	-	-	-	-	-
Income taxes (% of revenue)	1%	1%	1%	-	-	-	-	-
Effective tax rate	5%	7%	5%	-	-	-	-	-
Net earnings	1,956	2,006	2,949	1,686	5,615	(54)	121	1,002
Net earnings (% of revenue)	13%	13%	20%	14%	30%	(1%)	2%	14%
Earnings per share (in \$):								
Basic	0.07	0.08	-	-	-	-	-	-
Diluted	0.06	0.08	-	-	-	-	-	-

Gross revenue generally was even throughout fiscal year 2006, except for Q1 which was considerably less because construction of Liaoning Migao was not yet completed and the operations had not started until December 2005. Therefore, Q1 2006 revenue mostly resulted from production at Sichuan and Guangdong Migao facilities.

The significant differences of revenue in Q4 2005 compared to other quarters of fiscal 2005 were due to the "VAT Process" as referred to in Note 3 on page 7.

Gross profit fluctuated between quarters during fiscal 2006. The predominant cause was the fluctuating selling price for hydrochloric acid. Regardless, we believe that, overall, a small variance around the 24% mark is what can be reasonably expected as gross profit from the aggregated sales of all products.

The significant differences of gross profit in Q4 2005 compared to other quarters of fiscal 2005 were due to the "VAT Process" as referred to in Note 3 on page 7.

Selling expenses during fiscal 2006 were in-line with management's expectation and reflective of reasonable costs associated with both selling and product delivery activities. The fluctuation in selling expenses between Q2 and Q3 of fiscal 2006 were due to allocation methods used on certain delivery costs at one of the facilities which covers two periods.

General and administrative expenses during fiscal 2006 were also in-line with management's expectation and are considered reasonable.

Stock-based compensation expenses were reflective of the stock options granted to management and directors upon the listing of the Company's common stock on the Exchange on May 25, 2006.

Overall, **net earnings** as a percentage of sales, for fiscal 2006 was 15% and is in-line with management's expectation. Fluctuations over the quarters of the year were mainly due to the selling price of hydrochloric acid. The Company considers 15% to be a reasonable return from sales of main products along with their associated by-products.

Liquidity and Capital Resources

(in thousands of Cdn \$, except for ratios)	Sept 30, 2006	Sept 30, 2005	% change Increase/ (Decrease)
Current Ratio	2.89:1	2.0:1	N/A
Cash	16,316	2,456	564%
Working Capital	19,362	5,942	226%
Total Assets	57,087	27,959	104%
Total Debt	10,228	21,377	(52%)
Total Equity	46,859	6,582	612%
Debt to Equity Ratio	0.22:1	3.25:1	N/A

Cash Position

Cash and cash equivalents totalled \$16.3 million as of September 30, 2006, representing an increase of \$13.9 million and \$8 million compared with the balances as of September 30, 2005 and June 30, 2006, respectively.

For fiscal year 2006, the increase of \$13.9 million is a result of \$8.4 million generated from operation, \$15.8 million of net cash flow generated by private placement financing, \$1.4 million from a bank loan, offset by the \$9 million invested in the construction of Liaoning Migao and expansion projects at Sichuan and Guangdong Migao and \$3 million payments for land use rights.

For the quarter ended September 30, 2006, the increase of \$8 million is a result of \$15.7 million from operation and \$1.4 million from a bank loan, offset by \$4.4 million invested in the expansion of Sichuan and Guangdong Migao, \$1.4 million payments for land use rights and \$2.9 million repayments of related party loans.

Migao has approximately \$1.8 million of land use rights payable as of September 30, 2006. These payables may come due in the second quarter of fiscal 2007.

The Company believes that its current cash position is sufficient to meet the ongoing needs of the business. Migao may however be required to access capital markets to fund future investments in plant construction.

Working Capital

Working capital was \$19.4 million as of September 30, 2006, representing an increase of \$13.4 million and a decrease of \$4 million compared with balances as of September 30, 2005 and June 30, 2006, respectively.

The substantial decrease of \$9 million of accounts receivable as of September 30, 2006 compared to June 30, 2006 is due to the strong collection from clients during the fourth quarter. This is in line with management's expectation at the end of third quarter. It also demonstrates the strong financial condition and credit worthiness of the Company's major customers. Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment, net of accumulated depreciation and amortization, was \$13.4 million at September 30, 2006 compared with \$8.8 million and \$13.2 million as of September 30, 2005 and June 30, 2006, respectively.

Construction in progress was \$6.2 million at September 30, 2006 compared with \$2.7 million and \$2.2 million as of September 30, 2005 and June 30, 2006, respectively. The latter is mainly due to the on-going expansion projects of Sichuan and Guangdong Migao as of September 30, 2006.

Land use rights net of accumulated amortization remained at \$7.8 million at September 30, 2006. Two new land use rights were acquired during the fourth quarter of fiscal 2006, for the total amount of \$2.3 million. These lands are part of the Liaoning Migao and Guangdong Migao parcels for the use of production and employee lodging facilities and account for a total area of approximately 104,000 square meters.

Contractual Obligation Summary

- Purchase commitments for raw materials and supplies in the amount of \$0.6 million as of September 30, 2006, were entered into in the normal course of business.
- Commitments on capital expenditures in the amounts \$3 million exist as of September 30, 2006. These contracts were entered into in the normal course of business.
- A letter of credit in the amount of US\$2,173,000 is outstanding as of September 30, 2006, for the purchase of raw material. It is secured by bank notes in the amount of US\$1.6 million and term deposits in the amount of US\$569,000.
- Commitments in the amount of \$135,940 is due on January 13, 2007 and \$1,223.457 is due on February 27, 2007, both for the balance of the land use right acquired for the construction of Shanghai facility.
- The Company signed an office lease for its Toronto head office on August 14, 2006. The term of the lease is five years from October 1, 2006. The lease obligations are approximately \$70,000 per year for the next five calendar years from year 2007 to 2011.

Capital Structure

The Company is authorized to issue an unlimited number of common shares and unlimited number of preference shares, each common share providing the holder with one vote. As of January 15, 2007, there were:

- 29,165,370 common shares outstanding.
- 1,165,000 stock option outstanding, with exercise price of \$2.85, and weighted average remaining contractual life of 4.63 years. None of the stock options are exercisable as of January 15, 2007.
- 3,208,225 warrants outstanding, with exercise price of \$3.70, exercisable before May 18, 2008.
- 391,961 agent compensation options outstanding, with exercise price of \$2.85 per compensation unit. Each compensation unit consists of one common share of the Company and one-half warrant. Each whole warrant entitles the agent to purchase one common share at \$3.70 before May 18, 2008.

Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Migao including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

As of September 30, 2006, amount due to Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") was \$530,672. LYEDC and the Company are ultimately controlled by the same shareholder. The funds were advanced throughout the last year in order to finance the head office operation up to the completion of the private placement financing on May 18, 2006.

Office rent in the amount of \$12,500 was paid during the fiscal year ended September 30, 2006 to a company controlled by certain directors of the Company.

Proposed Transactions

Migao is not a party to any proposed transaction, other than the aforesaid, that may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended September 30, 2006 and notes thereto. To aid in understanding the Company's financial reporting its critical accounting policies are described below. Accounting policies are critical if they rely on a substantial amount of judgement in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

Basis of Presentation

The audited consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries in the PRC. These financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recently audited financial statements of HK Migao. Certain comparative figures have been reclassified to conform to the current period's presentation.

Cash Equivalents

For the purpose of the combined statements of cash flows, the Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is determined using the weighted-average method. Net realizable value represents the anticipated selling price less all further costs for distribution.

Plant and Equipment

Plant and equipment are recorded at cost. Amortization is provided over the expected useful lives of the plant and equipment with a 10% residual value using the following methods and annual rates:

Building and improvements	-	20 years straight line
Machinery and equipment	-	10 years straight line
Vehicles	-	5 years straight line
Office equipment	-	5 years straight line

Construction in Progress

Construction in progress represents properties under construction and is stated at cost. Construction in progress is not amortized until such time as the assets are completed and put into operational use.

Land Use Rights

Land use rights are recorded at cost and are amortized over 50 to 70 years, which are the terms of the land use rights set by the Chinese government.

Impairment of Long-lived Assets

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on income tax assets and liabilities is reflected in operations in the period in which the change occurs. Valuation allowances are established when necessary to reduce future tax assets to the amount expected to be realized.

Revenue Recognition

Revenue is recognized when goods are shipped and all significant risks and rewards of ownership passed to the customer with collection of revenue reasonably assured.

Foreign Exchange

The Company's functional currency is the Chinese Renminbi ("RMB") and its reporting currency is the Canadian dollar. The accounts of the Company are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the year-end rate of exchange. Revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as a cumulative translation adjustment.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments and Other Instruments

Migao is not a party to any financial instrument, as the term is defined in National Instrument 51-102F1, paragraph 1.14.

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In the Management Information Circular of HK Migao dated April 10, 2006, it provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. In management's opinion, there has been no material change in the nature or magnitude of the risks faced by the Company

Auditors' Report

To the Shareholders of Migao Corporation

We have audited the consolidated balance sheets of Migao Corporation as at September 30, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the year ended September 30, 2006 and for the nine month period ended September 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements presents fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the year ended September 30, 2006 and for the nine month period ended September 30, 2005 in accordance with Canadian generally accepted accounting principles.

Signed: "Moore Stephens Cooper Molyneux LLP"

Chartered Accountants

Toronto, Ontario

November 18, 2006

(except for Note 17 which is as of Jan 11, 2007)

Consolidated Balance Sheets

(in Cdn \$) September 30, 2006 and 2005

2006

2005

Assets**Current assets**

Cash and cash equivalents (note 14)	\$ 16,315,835	\$ 2,455,571
Accounts receivable	4,435,769	3,747,496
Prepayments, deposits and other receivables (note 3)	4,891,382	3,004,872
Inventory (note 4)	3,947,193	2,434,816

	29,590,179	11,642,755
Plant and equipment (note 6)	13,464,499	8,758,541
Construction in progress	6,203,587	2,664,321
Land use rights (note 7)	7,828,983	4,893,638

	\$ 57,087,248	\$ 27,959,255
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Liabilities**Current liabilities**

Bank indebtedness (note 8)	\$ 1,410,000	\$ -
Accounts payable and accrued liabilities (note 7)	5,213,106	4,970,922
Customer deposits	2,965,101	467,513
Due to related parties (note 5)	530,672	261,864
Income tax payable	109,308	-

	10,228,187	5,700,299
Due to related parties (note 5)	-	15,676,613

	10,228,187	21,376,912
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Shareholders' equity

Share capital (note 9)	28,729,591	1,538
Contributed surplus (note 9)	2,955,592	-
Cumulative translation adjustment	(146,877)	(142,388)
Retained earnings (note 11)	15,320,755	6,723,193

	46,859,061	6,582,343
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Commitments and contingencies (note 14)**Subsequent events (note 17)**

	\$ 57,087,248	\$ 27,959,255
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The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board of Directors



Guocai Liu
Director



Keith Attoe
Director

Consolidated Statements of Operations and Retained Earnings

	Year Ended Sept 30, 2006	Nine Months Ended Sept 30, 2005
(in Cdn \$) For the periods ended September 30, 2006 and 2005		
Revenues	\$ 58,349,473	\$ 32,503,436
Cost of goods sold	44,599,078	24,574,792
Gross profit	13,750,395	7,928,644
Operating expenses		
Selling expenses	2,019,132	899,054
General and administrative	1,883,841	1,018,787
Stock-based compensation	370,305	–
Professional and consulting	499,651	193,525
Pre-operating costs	–	142,294
	4,772,929	2,253,660
Income from operations	8,977,466	5,674,984
Other income	50,246	7,295
Income before income taxes	9,027,712	5,682,279
Provision for income taxes (note 12)	430,150	–
Net income for the period	8,597,562	5,682,279
Retained earnings, beginning of period	6,723,193	1,040,914
Retained earnings, end of period	\$ 15,320,755	\$ 6,723,193
Income per share: (note 10)		
Basic	\$ 0.37	\$ –
Diluted	\$ 0.37	\$ –
Weighted average number of common shares outstanding: (note 10)		
Basic	23,539,842	–
Diluted	23,555,094	–

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

Consolidated Statements of Cash Flows

(in Cdn \$) For the periods ended September 30, 2006 and 2005	Year Ended Sept 30, 2006	Nine Months Ended Sept 30, 2005
Cash flow from operating activities		
Cash receipts from customers	\$ 60,158,788	\$ 31,484,132
Cash paid to suppliers and employees	(51,454,033)	(28,455,491)
Cash repaid by related party for supplies	-	59,995
Income taxes paid	(320,842)	-
Interest paid	(55,813)	-
Interest received	50,246	7,295
	8,378,346	3,095,931
Cash flow from investing activities		
Purchase of plant and equipment	(5,580,367)	(1,979,848)
Construction in process	(3,539,266)	(1,489,590)
Payments for land use rights	(2,946,440)	(1,960,260)
	(12,066,073)	(5,429,698)
Cash flow from financing activities		
Proceeds from bank loan	1,410,000	-
Capital injections from owners	-	3,726,122
Advances from related parties, net	268,808	2,425,359
Issuance of common shares, net	15,869,183	1,538
Repayment of related parties advances	-	(2,113,218)
	17,547,991	4,039,801
Increase in cash and cash equivalents	13,860,264	1,706,034
Cash and cash equivalents, beginning of period	2,455,571	749,537
Cash and cash equivalents, end of period	\$ 16,315,835	\$ 2,455,571
Cash and cash equivalents consist of:		
Cash on hand	\$ 12,112,572	\$ 2,455,571
Term deposit	40,000	-
Bank notes	4,163,263	-
	\$ 16,315,835	\$ 2,455,571

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

Notes to Consolidated Financial Statements

Fiscal Year Ended September 30, 2006

Note 1: Nature of Operations and Basis of Presentation

Nature of Operations

The Company, through its wholly owned Subsidiaries, is a manufacturer of specialty potash-based fertilizers, produced at its existing three operational facilities in the People's Republic of China ("PRC").

The Company

The consolidated financial statements of Migao Corporation ("the Company" or "Migao") as of September 30, 2006 reflect the reverse takeover transaction by H.K. Migao Industry Limited ("HK Migao") of Fox Mountain Explorations Ltd. ("Fox Mountain"), a natural resource exploration company incorporated on December 29, 1997 under the laws of the province of Ontario. The reverse takeover by HK Migao of Fox Mountain was approved by the shareholders of each company and was completed on May 18, 2006 at which time the Company was renamed Migao Corporation.

Migao holds 100% of the issued and outstanding capital of HK Migao, which in turns holds 100% of the issued and outstanding capital of Sichuan Migao Chemical Fertilizer Industry Co. Ltd. ("Sichuan"), Guangdong Migao Chemical Co. Ltd. ("Guangdong"), Liaoning Migao Chemical Co. Ltd. ("Liaoning") and Migao Chemical Industry (Shanghai) Co. Ltd. ("Shanghai") (collectively, the "Subsidiaries").

Reverse Takeover Transactions

Effective May 18, 2006, Fox Mountain issued 20,400,000 common shares to the shareholders of HK Migao to complete the acquisition of 100% of the issued and outstanding shares of HK Migao. As a result of this acquisition, the former shareholders of HK Migao controlled 98% of the issued and outstanding share capital of the Company immediately after the acquisition, constituting a reverse takeover, with HK Migao being the acquiring company.

The acquisition of the shares of HK Migao has been accounted for as a reverse takeover transaction in accordance with guidance provided in Emerging Issues Committee Abstract No. 10. As Fox Mountain did not qualify as a business for accounting purposes, the transaction has been accounted for as an issuance of shares by HK Migao for the net monetary assets of Fox Mountain, accompanied by a recapitalization of the Company.

The net monetary assets of the Company received were as follows:

Total assets acquired	\$	NIL
Less current liabilities		1,100
<hr/>		
Net assets acquired	\$	(1,100)
<hr/>		

Further to the reverse takeover transaction, these consolidated financial statements for the year ended September 30, 2006 reflect the assets, liabilities and results of operations of HK Migao, the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and HK Migao subsequent to the reverse takeover. The consolidated financial statements are issued under the name of the legal parent (the Company) but are deemed to be a continuation of the legal subsidiary (HK Migao). The comparative balance sheet as at September 30, 2005 and the comparative results of operations and cash flows for the nine months period ended September 30, 2005 are those of HK Migao.

The following supplementary information summarizes the results of operations and deficit of Fox Mountain for the period preceding the reverse takeover transaction:

	Oct 1, 2005 to May 17, 2006
Expenses:	
General and administrative	\$ 25,658
<hr/>	
Loss for the period	25,658
Deficit, beginning of period	413,915
<hr/>	
Deficit, end of period	\$ 439,573
<hr/>	

Basis of Presentation

These consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries in the PRC. These financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recently audited financial statements of HK Migao. Certain comparative figures have been reclassified to conform to the current period's presentation.

Note 2: Significant Accounting Policies

Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is determined using the weighted average method. Net realizable value represents the anticipated selling price less all further costs for distribution.

Plant and Equipment

Plant and equipment are recorded at cost. Amortization is provided over the expected useful lives of the plant and equipment with a 10% residual value using the following methods and annual rates:

Building and improvements	-	20 years straight line
Machinery and equipment	-	10 years straight line
Vehicles	-	5 years straight line
Office equipment	-	5 years straight line

Construction in Progress

Construction in progress represents properties under construction and are stated at cost. Construction in progress is not amortized until such time as the assets are completed and put into operational use.

Land Use Rights

Land use rights are recorded at cost and are amortized over 50 to 70 years, which are the terms of the land use rights set by the Chinese government.

Impairment of Long Lived Assets

Long lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on income tax assets and liabilities is reflected in operations in the period in which the change occurs. Valuation allowances are established when necessary to reduce future tax assets to the amount expected to be realized.

Revenue Recognition

Revenue is recognized when goods are shipped and all significant risks and rewards of ownership passed to the customer with collection of revenue reasonably assured.

Foreign Exchange

The Company's functional currency is the Chinese Renminbi ("RMB") and its reporting currency is the Canadian dollar. The accounts of the Company are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the year end rate of exchange. Revenues and expenses are translated into Canadian dollars at the average rate of exchange for the period. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as a cumulative translation adjustment.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Black-Scholes option valuation model, used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the year.

Recent Canadian Accounting Pronouncements

Financial Instruments – Recognition and Measurement

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, "Financial Instruments – Recognition and Measurement", effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530.

Non-Monetary Transactions

In June 2005, the CICA released a new Handbook Section 3831, Non-monetary Transactions, effective for fiscal periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity.

Note 3: Prepayments, Deposits, and Other Receivables

	2006	2005
Prepayments for raw materials	\$ 2,689,982	\$ 1,331,253
Prepayments for construction costs	1,416,103	975,871
Prepayment for transportation services	1,390	159,195
Deposits for the supply of utilities	252,816	115,040
VAT receivable	347,177	379,513
Other receivables and deposits	183,914	44,000
	\$ 4,891,382	\$ 3,004,872

Note 4: Inventory

	2006	2005
Raw materials	\$ 3,670,084	\$ 1,852,097
Finished goods	213,129	520,448
Packing materials	63,980	62,271
	\$ 3,947,193	\$ 2,434,816

Note 5: Related Party Balances and Related Party Transactions

At the end of the periods, the Company had related party balances as follows:

	2006	2005
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	\$ 530,672	\$ 12,130,546
Russia Liumix Chemical Co. Ltd. ("Liumix")	-	3,807,931
	530,672	15,938,477
Less: current portion (i)	530,672	261,864
Long term portion (ii)	\$ NIL	\$ 15,676,613

Prior to the incorporation of HK Migao in August 2005, the Subsidiaries were 75% owned by LYEDC and 25% owned by Liumix. LYEDC and the Company are ultimately controlled by the same shareholder.

- (i) Expenses paid by LYEDC, on behalf of the Company in the amount of \$474,920 are included in the current portion of due to related party. The balance of \$55,752 represents interest payable on the long term portion of the advances, up to the date of conversion to equity on June 7, 2006 (Note 5(ii)). These amounts are non interest bearing and due on demand.
- (ii) Advances to the subsidiaries from LYEDC for operating purposes in the amount of \$6,510,938 represent the long term portion. On October 18, 2005, the maturity dates on these advances was extended to be due on January 1, 2009 and bear interest at 2% per annum commencing on January 1, 2006. Two notes payable on the transfer of the subsidiaries' ownerships to the Company by the former owners, LYEDC and Liumix, in the amounts of \$5,365,653 and \$3,800,022 respectively, were transferred to Migao International Holding Limited, a company majority owned by the shareholder of LYEDC. On June 7, 2006, the long-term debt in the amount of \$6,278,482 was converted into 1,846,612 common shares of the Company at \$3.40 per share, the closing trading price on June 7, 2006. The value of the debt was converted into Canadian dollars from its denominated currency of Chinese Renminbi using the exchange rate on June 7, 2006.

Office rent in the amount of \$12,500 (NIL – 2005) was paid during the year ended September 30, 2006 to a company controlled by certain directors of the Company.

Note 6: Plant and Equipment

	Cost	Accumulated Amortization	2006 Net Book Value
Buildings and improvements	\$ 6,708,599	\$ 352,976	\$ 6,355,623
Machinery and equipment	7,812,532	1,202,871	6,609,661
Vehicles	477,459	184,680	292,779
Office equipment	273,120	66,684	206,436
	\$ 15,271,710	\$ 1,807,211	\$ 13,464,499

	Cost	Accumulated Amortization	2005 Net Book Value
Buildings and improvements	\$ 3,316,393	\$ 197,096	\$ 3,119,297
Machinery and equipment	5,791,583	628,833	5,162,750
Vehicles	434,704	105,515	329,189
Office equipment	174,230	26,925	147,305
	\$ 9,716,910	\$ 958,369	\$ 8,758,541

Amortization expense for the year ended September 30, 2006 was \$841,137 (nine months ended September 30, 2005 \$575,899).

Note 7: Land Use Rights

	2006	2005
Land use rights	\$ 7,859,142	\$ 4,913,167
Less: accumulated amortization	30,159	19,529
	\$ 7,828,983	\$ 4,893,638

As of September 30, 2006, the Company had nine land leases from the Chinese government with terms of fifty to seventy years.

Amortization expense for the year ended September 30, 2006 was \$11,177 (nine months ended September 30, 2005 \$6,487) and is included in general and administrative expenses.

As of September 30, 2006, the Company had not obtained the land use right certificates for five of the land leases and approximately \$1.8 million has been accrued as the balance due on the issuance of the certificates. It is common practice in the PRC that the land use right certificates are only issued when the government has serviced the land ready for construction.

Under the PRC law, land use rights can be revoked and the tenants can be forced to vacate at anytime when re-development of the land is in the public interest.

Note 8: Bank Indebtedness

At September 30, 2006, the Company has a short-term bank loan outstanding in the amount of \$1,410,000 (RMB 10 million) for working capital and general corporate purposes. It is due on January 11, 2007, bears interest at 5.655% per annum, and is secured by the buildings of one of the facilities owned by the Company.

Note 9: Share Capital

(a) Authorized:

Unlimited common shares without par value; and
Unlimited preference shares without par value.

(b) (i) Issued Common Shares of HK Migao Pre RTO:

	Number of Shares	Amount
Balance – September 30, 2005	10,000	\$ 1,538
Conversion of long-term debt	10,400	9,165,675
Balance – May 17, 2006	20,400	\$ 9,167,213

(ii) Issued Common Shares

	Number of Shares	Amount
Share capital is comprised of the number of issued and outstanding common shares of Fox Mountain and the stated capital of HK Migao	8,540,000	\$ 9,167,213
Consolidation of common share 1 for 17 basis	(8,037,691)	–
Issued to acquire HK Migao	20,400,000	–
Issued pursuant to a private placement at \$2.85 per share (i)	6,363,000	18,134,550
Share issuance costs	–	(2,265,367)
Private placement warrants (i)	–	(2,099,790)
Underwriters' compensation options (ii)	–	(485,497)
Issued on conversion of long-term debt (iii)	1,846,612	6,278,482
Balance – September 30, 2006	29,111,921	\$ 28,729,591

Reverse takeover accounting causes the amount represented by Share Capital to relate to the legal subsidiary, HK Migao, while the number of shares relates to the legal parent, Fox Mountain.

- (i) On May 18, 2006 (the "closing date"), the Company completed a private placement of 6,363,000 units priced at \$2.85 per unit with each unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share on payment of \$3.70 per common share within two years from the closing date. The fair value of the warrants issued with the private placement was estimated using the Black-Scholes option pricing model on the closing date of the private placement to be \$0.66 per warrant. Assumptions used to determine the value of the warrants were: dividend yield 0%; risk-free interest rate 4%; expected volatility 66%; and expected life of 2 years.
- (ii) In addition to the agency fee paid in cash, the Company granted compensation options entitling the agents to acquire 445,410 units at price of \$2.85 per unit two years from the closing date. Each agent compensation unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to acquire one common share on payment of \$3.70 per common share within two years from the closing date. The fair value of the compensation options granted with the private placement was estimated using the Black-Scholes option pricing model on the closing date of the private placement to be \$1.09 per option. Assumptions used to determine the value of the compensation options were: dividend yield 0%; risk-free interest rate 4%; expected volatility 66%; and expected life of 2 years.
- (iii) On June 7, 2006, 1,846,612 common shares of the Company were issued at \$3.40 per share upon the conversion of the long-term debt in the amount of \$6,278,482 owing to LYEDC, related by common control.

(c) Contributed Surplus

	Amount
Balance – September 30, 2005	\$ –
Conversion of note payable in HK Migao (i)	9,164,099
Elimination on consolidation (i)	(9,164,099)
Stock-based compensation expense	370,305
Compensation options to brokers	485,497
Warrants issuance on private placement	2,099,790
Balance – September 30, 2006	\$ 2,955,592

- (i) On November 10, 2005, a note payable in the amount of \$9,165,675 to Migao International Holding Limited, was converted into a total of 10,400 common shares of HK Migao. The contributed surplus represents the difference between the par value of the shares which is \$1,576 and the value of the note payable owed to Migao International Holding Limited before the conversion.

(d) Stock Options

Under the Company's stock option plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The board of directors or such other persons designated by the board administers the plan and determines the vesting and terms of each award.

The following table summarizes the activity of the Company's stock option plan.

	Options		Weighted average exercise price
Outstanding – September 30, 2005	–	\$	–
Granted during the year	1,165,000		2.85
Outstanding – September 30, 2006	1,165,000	\$	2.85

The following table summarizes the weighted average information about the outstanding stock options.

Exercise price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
2.85	1,165,000	4.63	NIL

During the year, 1,165,000 compensation options were issued to the employees and directors of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$2.85 per common share. These options have vesting periods of up to three years and an exercise period of up to five years, expiring on May 18, 2011. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$1.40 per option.

Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 4%; expected volatility 66%; and expected life of 5 years. Stock-based compensation expense for the year ended September 30, 2006 was \$370,305 (nine months ended September 30, 2005 – NIL).

(e) Warrants

	Number of Warrants		Weighted average exercise price
Outstanding – September 30, 2005	–	\$	–
Issued on private placement financing	3,181,500		3.70
Outstanding – September 30, 2006	3,181,500	\$	3.70

Note 10: Income Per Share

HK Migao was not incorporated until August 2005 and the statements of operations and retained earnings for the nine months ended September 30, 2005 are prepared on a combined basis of the Subsidiaries which were incorporated without share capital. The income per share and weighted average number of common shares outstanding amounts for the period ended September 30, 2005 are therefore not presented.

Note 11: Retained Earnings

Under the laws of the PRC, all wholly foreign owned investment entities have to set aside a portion of their net income each year as a general reserve fund until the fund has reached 50% of the entity's paid in capital. The Company is also required to set aside a portion of net income as an expansion fund. These funds are allowed to be distributed to shareholders at the time of winding up. The fund accumulated by the Company as at September 30, 2006 was \$444,674 (RMB 3,153,714; 2005 – RMB 519,633).

Note 12: Income Tax

The components of income before income taxes are as follows:

	2006	2005
Pre-tax income (loss) from operations		
Canada	\$ (936,662)	\$ NIL
Foreign – China	9,964,374	5,682,279
	\$ 9,027,712	\$ 5,682,279

The provision for income taxes consists of the following:

	2006	2005
Income taxes for operations:		
Current		
Foreign – China	\$ 430,150	\$ NIL

The subsidiaries are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and various local income tax laws. Pursuant to the relevant laws and regulations in the PRC, the subsidiaries are subject to income tax at an effective rate of 33% on income as reported in their statutory financial statements. The subsidiaries are entitled to a full exemption from PRC income tax for two years starting from their first profitable year and a 50% exemption from PRC income tax for three years starting two years after the first profitable year.

Each subsidiary maintains a December 31st year end for tax purposes. Sichuan received a full exemption from tax for the years ended December 31, 2004 and 2005 having incurred a loss in its first year of operations being December 31, 2003. Guangdong will receive a full exemption from tax for the years ended December 31, 2005 and 2006 having incurred a loss in its first year of operations being December 31, 2004. Liaoning is expected to receive full exemptions from tax for the years ending December 31, 2006 and 2007 having incurred a loss in the first year of operations being December 31, 2005. Shanghai is expected to receive full exemptions from tax for the years ending December 31, 2008 and 2009. As a result of their operating results, the Subsidiaries will be eligible for the 50% exemption from tax as follows: Sichuan for the years ending December 31, 2006 through 2008; Guangdong for the years ending December 31, 2007 through 2009; Liaoning for the years ending December 31, 2008 through 2010; and Shanghai for the years ending December 31, 2010 through 2012.

The Company (legal parent) is governed by the Income Tax Act of Canada. It is not anticipated to incur income taxes as no operational revenue is to be generated.

Income tax expense varies from the amount by applying the combined Canadian federal and provincial tax rate of 36.12% (2005 – 36.12%) to income before income taxes as follows:

	2006	2005
Pre-tax income from continuing operations:	\$ 9,027,712	\$ 5,682,279
Income taxes at combined Canadian tax rate	\$ 3,260,810	\$ 2,052,439
Increase (decrease) in income taxes resulting from:		
Lower tax rates on earnings of foreign subsidiaries	(3,168,982)	(2,052,439)
Non-deductible expenses	133,754	–
Change in valuation allowance	204,568	–
	\$ 430,150	\$ NIL

There are no significant taxable or deductible temporary differences as a result of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases that would give rise to a future tax asset or liability for the Chinese subsidiaries.

At September 30, 2006, the Company has approximately \$1,116,000 of non-capital loss carryforward, which expires in 2026 for Canadian income tax purposes. The utilization of the loss is uncertain therefore a valuation allowance has been applied and no future income tax asset is set up for these losses.

Note 13: Segmented Information

The Company has one operating segment, being the production and sale of specialty potash-based fertilizer, along with their associated by-products. All of Company's assets and operations are located in the PRC.

Geographical information:

2006	Canada	China (000's)	Total
Sales from operations	\$ NIL	\$ 58,349	\$ 58,349
Net income (loss) from operations	\$ (936)	\$ 9,964	\$ 8,598
Total assets of operations	\$ 75	\$ 57,012	\$ 57,087
Plant and equipment, land use rights and construction in progress	\$ NIL	\$ 27,497	\$ 27,497

2005		Canada	China (000's)		Total
Sales from operations	\$	NIL	\$ 32,503	\$	32,503
Net income (loss) from operations	\$	NIL	\$ 5,682	\$	5,682
Total assets of operations	\$	NIL	\$ 27,959	\$	27,959
Plant and equipment, land use rights and construction in progress	\$	NIL	\$ 16,317	\$	16,317

Note 14: Commitments and Contingencies

Purchase commitments for raw materials and supplies in the amount of \$611,667 (RMB 4.3 million) exist as of September 30, 2006. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of \$3,004,343 (RMB 21.3 million) exist as of September 30, 2006. These contracts are entered into in the normal course of business.

A letter of credit in the amount of US\$2,173,000 is outstanding as of September 30, 2006. It is secured by bank notes in the amount of US\$1.6 million and term deposits in the amount of US\$569,000.

Commitment in the amount of \$135,940 (RMB 964,111) is due on January 13, 2007 and \$1,223,457 (RMB 8,676,999) is due on February 27, 2007, both for the balance on the land use right acquiring for the construction of Shanghai facility. The Company signed an office lease on August 14, 2006. The term of the lease is five years from October 1, 2006. The lease obligations are reflected in the following table on a fiscal year basis.

2007	\$	69,225
2008		70,194
2009		71,163
2010		72,132
2011		73,101
Total	\$	355,815

Note 15: Financial Instruments

Fair Value

The carrying amount of accounts receivable, prepayments, deposits, other receivables, bank indebtedness, accounts payable, accrued liabilities, customer deposits and income tax payable approximates their fair value because of the short term maturities of these items. The fair value of the amounts due from and to related parties are not readily determinable due to the related party nature of the advances.

Credit Risk

Under PRC business custom, the Company is required to pay deposits on most of their purchases and demands deposits on most of their sales other than those with the government, who is one of the significant customers of the Company. Consequently, exposure to credit risk is limited accordingly.

Currency Risk

The Company is exposed to currency risk as the Company's business is carried out in RMB and the Company maintains RMB denominated bank accounts but uses Canadian dollars as its reporting currency. Unfavourable changes in the exchange rate between RMB and Canadian dollars may result in a material effect on the cumulative translation adjustment recorded as a charge in shareholder's equity. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

In addition, the RMB is not a freely convertible currency. The Company's subsidiaries are allowed to pay outstanding current account obligations in foreign currency but must present the proper documentation to a designated foreign exchange bank. There is not certainty that all future local currency can be repatriated.

Commodity Price Risk

The Company uses various commodity raw materials in the manufacture of chemical fertilizer. Commodity prices are subject to volatile price changes resulting from a variety of factors including international economic trends, global and regional demand, interest rates, global and regional consumption patterns. Accordingly, the Company is exposed to market risk from fluctuating market prices of certain raw materials. In addition, the Company is also exposed to market price risk on other inputs such as electricity and natural gas.

Note 16: Economic Dependence

During 2006, two customers individually comprised 48% and 10% of revenue and two suppliers individually accounted for 41% and 19% of total purchases. At September 30, 2006, two customers individually represented 46% and 15% of total accounts receivable and one supplier represented 57% of total accounts payable.

During 2005, two customers individually comprised 24% and 15% of revenue and three suppliers individually accounted for 35%, 30% and 24% of total purchases. At September 30, 2005, one customer represented 71% of total accounts receivable and one supplier represented 26% of total accounts payable.

Note 17: Subsequent Events

On December 29, 2006, land use right contracts were signed for the construction of a Shanghai facility for the total amount of \$2.5 million (RMB 18.1 million). Payment in the amount of \$1.2 million (RMB 8.24 million) was made on December 14, 2006.

On January 10, 2007, the bank loan in amount of \$1.41 million (RMB 10 million) was paid off.