

H.K. Migao Industry Limited
Interim Consolidated Financial Statements
For the three months period ended December 31, 2005 and 2004
(in Canadian dollars)
(Unaudited)

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*For the three months period ended December 31, 2005
(unaudited)*

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H.K. Migao Industry Limited

Interim Consolidated Balance Sheets

As of December 31, 2005 and September 30, 2005
(in Canadian dollars)

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 1,300,671	\$ 2,455,571
Accounts receivable	3,755,569	3,747,496
Prepayments, deposits and other receivables (note 2)	4,200,893	3,004,872
Inventory (note 3)	4,689,450	2,434,816
	13,946,583	11,642,755
Plant and equipment (note 5)	8,803,248	8,758,541
Construction in progress	5,118,707	2,664,321
Land use rights (note 6)	5,695,657	4,893,638
	\$ 33,564,195	\$ 27,959,255
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 7,001,401	\$ 4,970,922
Customer deposits	324,412	467,513
Due to related parties (note 4)	2,194,613	261,864
	9,520,426	5,700,299
Due to related parties (note 4)	6,542,632	15,676,613
	16,063,058	21,376,912
Shareholder's equity		
Share capital (note 7)	2,917	1,538
Contributed surplus (note 8)	9,164,099	-
Cumulative translation adjustment	(74,985)	(142,388)
Retained earnings (note 9)	8,409,106	6,723,193
	17,501,137	6,582,343
	\$ 33,564,195	\$ 27,959,255

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

Approved by the Board

Director

Director

H.K. Migao Industry Limited

Interim Consolidated Statements of Operations and Retained Earnings

For the three months period ended December 31, 2005 and December 31, 2004

(in Canadian dollars)

(Unaudited)

	December 31, 2005	December 31, 2004
Revenues	\$ 12,388,350	\$ 7,306,780
Cost of goods sold	9,687,062	5,910,682
Gross profit	2,701,288	1,396,098
Operating expenses		
Selling expenses	463,097	166,028
General and administrative expenses	278,200	175,888
Professional and consulting expenses	151,203	-
Pre-operating costs	125,288	54,997
	1,017,788	396,913
Income from operations	1,683,500	999,185
Other income	2,413	2,338
Net income for the period	1,685,913	1,001,523
Retained earnings, beginning of period	6,723,193	39,391
Retained earnings, end of period	\$ 8,409,106	\$ 1,040,914

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

H.K. Migao Industry Limited

Interim Consolidated Statements of Cash Flows

For the three months period ended December 31, 2005 and December 31, 2004

(in Canadian dollars)

(Unaudited)

	December 31, 2005	December 31, 2004
Cash flow from operating activities		
Cash receipts from customers	\$ 12,123,514	\$ 11,469,031
Cash paid to suppliers and employees	(11,579,357)	(12,904,263)
Interest received	2,413	-
	546,570	(1,435,232)
Cash flow from investing activities		
Purchase of plant and equipment	(240,180)	(1,373,868)
Construction in process	(2,450,437)	(172,517)
Payment for land use rights	(413,983)	-
	(3,104,600)	(1,546,385)
Cash flow from financing activities		
Advances from related parties, net	1,382,584	2,125,475
Repayment from director	20,546	-
	1,403,130	2,125,475
Decrease in cash	(1,154,900)	(856,142)
Cash and cash equivalent, beginning of period	2,455,571	1,605,679
Cash and cash equivalent, end of periods	\$ 1,300,671	\$ 749,537

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

H.K. Migao Industry Limited

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2005

(in Canadian dollars)

(Unaudited)

1. Basis of Presentation

H.K. Migao Industry Limited (the "Company") was incorporated in August 2005 in Hong Kong to hold 100% of Sichuan Migao Chemical Fertilizer Industry Co. Ltd. ("Sichuan"), Guangdong Migao Chemical Co. Ltd. ("Guangdong"), and Liaoning Migao Chemical Co. Ltd. ("Liaoning") (collectively, the "Subsidiaries"). Prior to the incorporation of the Company, the Subsidiaries were 75% owned by Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") and 25% owned by Russia Liumix Chemical Co. Ltd. ("Liumix"). LYEDC and the Company are ultimately controlled by the same shareholder. The Subsidiaries, which were incorporated in the Peoples' Republic of China ("PRC") as Foreign Investment Enterprises, are engaged in the one operating segment, being production and sale of chemical fertilizer entirely within the PRC.

These unaudited interim 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 H.K. Migao Industry Limited and its subsidiaries in the People's Republic of China ("PRC"). These interim financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recent annual financial statements of the Company. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the nine months ended September 30, 2005. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

2. Prepayments, Deposits, and Other Receivables

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Prepayments for raw materials	\$ 3,126,695	\$ 1,331,253
Prepayments for construction costs	149,663	975,871
Prepayment for transportation services	42,384	159,195
Deposits for the supply of utilities	117,676	115,040
VAT receivable	437,687	379,513
Other receivables and deposits	326,788	44,000
	\$ 4,200,893	\$ 3,004,872

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2005

(in Canadian dollars)

(Unaudited)

3. Inventory

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Raw materials	\$ 4,496,740	\$ 1,852,097
Finished goods	136,605	520,448
Packing materials	56,105	62,271
	\$ 4,689,450	\$ 2,434,816

4. Related Party Balances and Related Party Transactions

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

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Amount due to:		
LYEDC	\$ 8,729,336	\$ 12,130,546
Liumix	7,909	3,807,931
	8,737,245	15,938,477
Less: current portion (i)	2,194,613	261,864
Long-term portion (ii)	\$ 6,542,632	\$ 15,676,613

- (i) Expenses paid by LYEDC, related by common control (*note 1*), on behalf of the Company in the amount of \$405,158 are included in the current portion of due from related party. The balance of \$7,909 represents advances from Liumix, one of the former owners (*note 1*) and \$1,781,546 represents advances from LYEDC to the subsidiaries for operating purposes. These amounts are non-interest bearing and due on demand.
- (ii) Advances to the subsidiaries from LYEDC for operating purposes in the amount of \$6,542,632 represents part of the long-term portion. The maturity dates on these advances were extended to be due in January 2009 and bear interest at 2% per annum commencing January 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 converted into equity of the Company during the period (*note 8*).

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2005

(in Canadian dollars)

(Unaudited)

5. Plant and Equipment

			December 31, 2005 (Unaudited)
	Cost	Accumulated Amortization	Net Book Value
Building and improvements	\$ 3,391,602	\$ 234,445	\$ 3,157,157
Machinery and equipment	5,951,222	761,523	5,189,699
Vehicles	436,821	126,721	310,100
Office equipment	181,327	35,035	146,292
	\$ 9,960,972	\$ 1,157,724	\$ 8,803,248
			September 30, 2005 (Audited)
	Cost	Accumulated Amortization	Net Book Value
Building 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 three months period ended December 31, 2005 was \$197,881.

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2005

(in Canadian dollars)

(Unaudited)

6. Land Use Rights

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Land use rights	\$ 5,717,300	\$ 4,913,167
Less: accumulated amortization	21,643	19,529
	\$ 5,695,657	\$ 4,893,638

As of December 31, 2005, the Company had six land leases from the Chinese government with a term of fifty years each.

Amortization expense for the three months period ended December 31, 2005 was \$2,114 and is included in general and administrative expenses.

As of December 31, 2005, the Company had not acquired the land use right certificates for 4 of the land leases and approximately \$2.5 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 PRC law, land use rights can be revoked and the tenants can be forced to vacate at any time when re-development of the land is in the public interest.

7. Share Capital

Authorized			December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Unlimited	Common shares			
Issued				
19,100	Common shares		\$ 2,917	\$ 1,538

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2005

(in Canadian dollars)

(Unaudited)

8. Contributed Surplus

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
LYEDC	\$ 5,364,471	\$ -
Liumix	3,799,628	-
	\$ 9,164,099	\$ -

On November 10, 2005, notes payable in the amounts of \$5,365,653 and \$3,800,022 to LYEDC and Liumix, respectively, were converted into a total of 10,400 common shares of the Company, of which 9,100 were issued before December 31, 2005. The contributed surplus represents amounts of the differences between the par values of the shares and values of the notes payable owed to LYEDC and Liumix before the conversion.

9. Retained Earnings

Under the laws of PRC, all wholly owned foreign 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 December 31, 2005 was RMB 3,153,714.

10. Commitments and Contingencies

Sichuan and Guangdong each have provided guarantees on a bank loan obtained by LYEDC for a maximum of approximately \$4.3 million (RMB 30 million) and \$2.9 million (RMB 20 million), respectively. As of December 31, 2005, \$2.9 million (RMB 20 million) was outstanding on the bank loan of LYEDC. Subsequent to the period end, the guarantee provided by Sichuan was removed.

11. Segmented Information

The Company has one operating segment, being the production and sale of chemical fertilizer. All of Company's assets and operations are located in PRC.