

H.K. Migao Industry Limited

Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

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*For the three and six month periods ended March 31, 2006 and 2005
(unaudited)*

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H.K. Migao Industry Limited

Interim Consolidated Balance Sheets

(in Canadian dollars)

	March 31, 2006 (Unaudited)	September 30, 2005 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 2,682,327	\$ 2,455,571
Accounts receivable	8,468,221	3,747,496
Prepayments, deposits and other receivables (note 2)	4,106,737	3,004,872
Inventory (note 3)	5,991,720	2,434,816
	21,249,005	11,642,755
Plant and equipment (note 5)	8,783,168	8,758,541
Construction in progress	5,453,192	2,664,321
Land use rights (note 6)	5,736,812	4,893,638
	\$ 41,222,177	\$ 27,959,255
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	\$ 1,456,000	\$ -
Accounts payable and accrued liabilities (note 6)	7,825,578	4,970,922
Customer deposits	2,113,691	467,513
Due to related parties (note 4)	2,446,837	261,864
Income taxes payable	159,364	-
	14,001,470	5,700,299
Due to related parties (note 4)	6,592,438	15,676,613
	20,593,908	21,376,912
Shareholders' equity		
Share capital (note 7)	3,114	1,538
Contributed surplus (note 8)	9,164,099	-
Cumulative translation adjustment	102,515	(142,388)
Retained earnings (note 9)	11,358,541	6,723,193
	20,628,269	6,582,343
	\$ 41,222,177	\$ 27,959,255

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

Approved by the Board

Director

H.K. Migao Industry Limited

Interim Consolidated Statements of Operations and Retained Earnings

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

	3 months ended March 31, 2006	3 months ended March 31, 2005	6 months ended March 31, 2006	6 months ended March 31, 2005
Revenues	\$ 15,100,436	\$ 7,031,161	\$ 27,488,786	\$ 14,337,941
Cost of goods sold	10,790,204	6,602,203	20,477,266	12,512,885
Gross profit	4,310,232	428,958	7,011,520	1,825,056
Operating expenses				
Selling expenses	770,542	135,364	1,233,639	301,392
General and administrative expenses	366,737	175,146	644,937	351,034
Professional and consulting expenses	68,620	-	219,823	-
Pre-operating costs	-	-	125,288	54,997
	1,205,899	310,510	2,223,687	707,423
Income from operations	3,104,333	118,448	4,787,833	1,117,633
Other income	2,041	2,332	4,454	4,670
Income before income taxes	3,106,374	120,780	4,792,287	1,122,303
Provision for income taxes	156,939	-	156,939	-
Net income for the period	2,949,435	120,780	4,635,348	1,122,303
Retained earnings, beginning of period	8,409,106	1,040,914	6,723,193	39,391
Retained earnings, end of period	\$ 11,358,541	\$ 1,161,694	\$ 11,358,541	\$ 1,161,694

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 and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

	3 months ended March 31, 2006	3 months ended March 31, 2005	6 months ended March 31, 2006	6 months ended March 31, 2005
Cash flow from operating activities				
Cash receipts from customers	\$ 12,177,064	\$ 8,152,017	\$ 24,300,578	\$ 19,621,048
Cash paid to suppliers and employees	(11,094,593)	(8,598,897)	(22,673,950)	(21,503,160)
Interest received	2,041	2,332	4,454	2,332
	1,084,512	(444,548)	1,631,082	(1,879,780)
Cash flow from investing activities				
Purchase of plant and equipment	(193,594)	(834,073)	(433,774)	(2,207,941)
Construction in process	(334,485)	(167,342)	(2,784,922)	(339,859)
Payments for land use rights	(883,001)	-	(1,296,984)	-
	(1,411,080)	(1,001,415)	(4,515,680)	(2,547,800)
Cash flow from financing activities				
Proceeds from bank loan	1,456,000	-	1,456,000	-
Advances from related parties, net	252,224	2,082,815	1,634,808	4,208,290
Advances from director	-	-	20,546	-
	1,708,224	2,082,815	3,111,354	4,208,290
Increase (decrease) in cash and cash equivalent	1,381,656	636,852	226,756	(219,290)
Cash and cash equivalent, beginning of period	1,300,671	749,537	2,455,571	1,605,679
Cash and cash equivalent, end of period	\$ 2,682,327	\$ 1,386,389	\$ 2,682,327	\$ 1,386,389

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 and six month periods ended March 31, 2006 and 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

	March 31,	September 30,
	2006	2005
	(Unaudited)	(Audited)
Prepayments for raw materials	\$ 2,050,426	\$ 1,331,253
Prepayments for construction costs	512,321	975,871
Prepayment for transportation services	48,517	159,195
Deposits for the supply of utilities	133,931	115,040
VAT receivable	493,502	379,513
Other receivables and deposits	868,040	44,000
	\$ 4,106,737	\$ 3,004,872

Notes to Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

3. Inventory

	March 31, 2006 (Unaudited)	September 30, 2005 (Audited)
Raw materials	\$ 5,243,601	\$ 1,852,097
Finished goods	661,887	520,448
Packing materials	86,232	62,271
	\$ 5,991,720	\$ 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:

	March 31, 2006 (Unaudited)	September 30, 2005 (Audited)
Amount due to:		
LYEDC	\$ 9,031,366	\$ 12,130,546
Liumix	7,909	3,807,931
	9,039,275	15,938,477
Less: current portion (i)	2,446,837	261,864
Long-term portion (ii)	\$ 6,592,438	\$ 15,676,613

(i) Expenses paid by LYEDC, related by common control (*note 1*), on behalf of the Company in the amount of \$624,918 are included in the current portion of due from related party. The balance of \$7,909 represents advances from Liumix, one of the former shareholders (*note 1*), \$1,781,546 represents advances from LYEDC to the subsidiaries for operating purposes, and \$32,464 represents interest payable on the long-term portion of the advances. These amounts are non-interest bearing and due on demand.

(ii) Advances to the subsidiaries from LYEDC for operating purposes in the amount of \$6,592,438 (RMB 45,277,733) 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.

Notes to Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

5. Plant and Equipment

	March 31, 2006 (Unaudited)		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 3,461,101	\$ 273,812	\$ 3,187,289
Machinery and equipment	5,976,078	905,705	5,070,373
Vehicles	450,363	146,832	303,531
Office equipment	267,024	45,049	221,975
	\$ 10,154,566	\$ 1,371,398	\$ 8,783,168
	September 30, 2005 (Audited)		
	Cost	Accumulated Amortization	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 six months period ended March 31, 2006 was \$411,554 (March 31, 2005 - \$196,036).

Notes to Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

6. Land Use Rights

	March 31, 2006 (Unaudited)	September 30, 2005 (Audited)
Land use rights	\$ 5,760,907	\$ 4,913,167
Less: accumulated amortization	24,095	19,529
	\$ 5,736,812	\$ 4,893,638

As of March 31, 2006, the Company had six land leases from the Chinese government with a term of fifty years each.

Amortization expense for the six months period ended March 31, 2006 was \$4,566 (March 31, 2005 - \$4,476) and is included in general and administrative expenses.

As of March 31, 2006, the Company had not acquired the land use right certificates for 4 of the land leases and approximately \$1.7 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

30,000 Common shares with par value of HK\$ 1.00 each.

Issued	Shares	Amount
Balance - September 30, 2005	10,000	\$ 1,538
On conversion of note payable (note 8)	10,400	1,576
Balance - March 31, 2006	20,400	\$ 3,114

8. Contributed Surplus

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 the Company. The contributed surplus represents the difference between the par value of the shares and value of the note payable owed to Migao International Holding Limited before the conversion.

Notes to Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

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 March 31, 2006 was \$382,732 (RMB 3,153,714).

10. Commitments and Contingencies

At March 31, 2006, the Company has a short-term bank loan outstanding in the amount of \$1,456,000 (RMB 10 million) for working capital and general corporate purposes. It is due on January 11, 2007, bears interest at 7.254% per annum, and is secured by one of the land use right certificates owned by the Company.

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. On February 17, 2006, the bank loan guaranteed by Sichuan was paid off and the guarantee was removed. As of March 31, 2006, \$1.456 million (RMB 10 million) was outstanding on the bank loan of LYEDC, guaranteed by Guangdong.

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.

Notes to Interim Consolidated Financial Statements

For the three and six month periods ended March 31, 2006 and 2005

(in Canadian dollars)

(Unaudited)

12. Subsequent Events

Subsequent to the period end the following transactions were completed:

- a) On April 3, 2006, the outstanding bank loan of \$1.456 million (RMB 10 million) (*note 10*) of LYEDC, guaranteed by Guangdong, was paid off, with guarantee provided by Guangdong removed.
- b) On April 7, 2006, the Company took out a short-term bank loan in the amount of \$1,456,000 (RMB 10 million) for working capital and general corporate purposes. It is due on July 7, 2006, bears interest at 6.786% per annum, and is secured by certain construction in progress. Subsequent to the period end on May 8, 2006, this loan, together with the \$1,456,000 (RMB 10 million) loan outstanding as of March 31, 2006 (*note 10*), were paid in full, with all securities discharged.
- c) On May 3, 2006, the shareholders of Fox Mountain Explorations Ltd. ("Fox") approved the transaction whereby Fox acquired 100% of the shares of the Company under a reverse takeover. The combined company's name was changed to "Migao Corporation" ("Migao") thereafter on May 18, 2006.
- d) On May 18, 2006 (the "Closing 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 million units, with each unit consisting one common share and one-half of one additional common share purchase warrant of the Company. 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.
- e) On May 25, 2006, Migao obtained listing and was listed on the TSX Venture Exchange under the stock symbol of "MGO".