

Migao Corporation

(Formerly "Fox Mountain Explorations Ltd.")

**Interim Consolidated Financial Statements
First Quarter, Fiscal 2007
Ended December 31, 2006**

Migao Corporation

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For the three months period ended December 31, 2006

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in Canadian dollars)

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 7,772,985	\$ 16,315,835
Accounts receivable	12,928,095	4,435,769
Prepayments, deposits and other receivables (note 2)	7,849,029	4,891,382
Inventory (note 3)	4,348,968	3,947,193
	32,899,077	29,590,179
Plant and equipment (note 5)	22,622,964	13,464,499
Construction in progress	1,270,615	6,203,587
Land use rights (note 6)	12,358,792	7,828,983
	\$ 69,151,448	\$ 57,087,248
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	\$ 4,926,900	\$ 1,410,000
Accounts payable and accrued liabilities (note 6)	6,432,357	5,213,106
Customer deposits	4,285,086	2,965,101
Due to related parties (note 4)	888,964	530,672
Income tax payable	131,709	109,308
	16,665,016	10,228,187
Shareholders' equity		
Share capital (note 8)	28,915,326	28,729,591
Contributed surplus (note 8)	3,172,687	2,955,592
Retained earnings (note 9)	17,729,718	15,320,755
Accumulated other comprehensive income (loss) (note 10)	2,668,701	(146,877)
	52,486,432	46,859,061
Commitments and contingencies (note 12)		
Subsequent event (note 13)		
	\$ 69,151,448	\$ 57,087,248

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

Approved on behalf of the Board of Directors

Signed by "Keith Attoe" _____

Director

Signed by "Michael Manley" _____

Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

For the three months period ended December 31, 2006 and December 31, 2005

(in Canadian dollars)

(Unaudited)

	December 31, 2006	December 31, 2005
Revenues	\$ 21,731,394	\$ 12,388,350
Cost of goods sold	17,057,739	9,687,062
Gross profit	4,673,655	2,701,288
Operating expenses		
Selling expenses	979,745	463,097
General and administrative	745,829	278,200
Stock-based compensation	250,500	-
Professional and consulting	211,864	151,203
Pre-operating costs	-	125,288
	2,187,938	1,017,788
Income from operations	2,485,717	1,683,500
Other income	51,074	2,413
Income before income taxes	2,536,791	1,685,913
Provision for income taxes	127,828	-
Net income for the period	2,408,963	1,685,913
Retained earnings, beginning of period	15,320,755	6,723,193
Retained earnings, end of period	\$ 17,729,718	\$ 8,409,106
Income per share:		
Basic	\$ 0.08	
Diluted	\$ 0.08	

Weighted average number of common shares outstanding:

Basic	29,152,896
Diluted	29,204,264

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

For the three months period ended December 31, 2006 and December 31, 2005

(in Canadian dollars)

(Unaudited)

	December 31, 2006	December 31, 2005
Net income for the period	\$ 2,408,963	\$ 1,685,913
Other comprehensive income, net of tax:		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	2,815,579	(67,206)
Comprehensive income	\$ 5,224,542	\$ 1,753,119

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

For the three months period ended December 31, 2006 and December 31, 2005

(in Canadian dollars)

(Unaudited)

	December 31, 2006	December 31, 2005
Cash flow from operating activities		
Cash receipts from customers	\$ 14,581,259	\$ 12,123,514
Cash paid to suppliers and employees	(19,952,864)	(11,579,357)
Income taxes paid	(105,426)	-
Interest received	28,868	2,413
	(5,448,163)	546,570
Cash flow from investing activities		
Purchase of plant and equipment	(3,259,029)	(240,180)
Construction in progress	(1,319,254)	(2,450,437)
Payments for land use rights	(2,520,238)	(413,983)
	(7,098,521)	(3,104,600)
Cash flow from financing activities		
Increase in bank indebtedness	3,516,900	-
Repayment from director	-	20,546
Advances from related parties, net	334,604	1,382,584
Proceeds from exercise of underwriters' compensation options	152,330	-
	4,003,834	1,403,130
Decrease in cash and cash equivalents	(8,542,850)	(1,154,900)
Cash and cash equivalents, beginning of period	16,315,835	2,455,571
Cash and cash equivalents, end of period	\$ 7,772,985	\$ 1,300,671
Cash and cash equivalents consist of:		
Cash on hand	\$ 4,492,364	\$ 1,264,546
Restricted cash	447,900	36,125
Term deposit	40,000	-
Bank notes	2,792,721	-
	\$ 7,772,985	\$ 1,300,671

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Migao Corporation (“the Company” or “Migao”), 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

Migao holds 100% of the issued and outstanding capital of H.K. Migao Industry Limited (“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”), Migao Chemical Industry (Shanghai) Co. Ltd. (“Shanghai”) and Migao Chemical (Changchun) Co. Ltd. (“Changchun”) (collectively, the “Subsidiaries”).

Basis of Presentation

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 the Company and its subsidiaries in the PRC. These interim 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 Migao. 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 audited financial statements of Migao for the year ended September 30, 2006. 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.

Accounting policy change

Effective October 1, 2006, the Company implemented the new CICA accounting sections: 3855 (Financial Instruments – Recognition and Measurement), 3865 (Hedges), and 1530 (Comprehensive Income). These new accounting policy changes have been implemented prospectively with no restatement of comparative financial statements, except as noted below.

Comprehensive income includes net income and other comprehensive income. It is defined as the change in equity (net assets) of a company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during the period except those resulting from investments by owners and distributions to owners. The only item included in other comprehensive income is the foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded currency translation account on the consolidated balance sheets’ shareholders’ equity section has been eliminated and included as “accumulative other comprehensive income” in shareholders’ equity. Furthermore, the gain (or loss) from translating the Company’s self-sustaining foreign operations is now recorded as other comprehensive income. Prior years financial statements have been restated to reflect this change. The Company’s earnings per share presented on the consolidated statements of income is based upon its net income and not comprehensive income.

The adoption of sections 3855 and 3865 had no impact on the Company’s financial statements.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

2. Prepayments, Deposits, and Other Receivables

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
Prepayments for raw materials	\$ 5,081,866	\$ 2,689,982
Prepayments for construction costs	1,514,440	1,416,103
Prepayment for transportation services	121,147	1,390
Deposits for the supply of utilities	173,533	252,816
VAT receivable	340,295	347,177
Other receivables and deposits	617,748	183,914
	\$ 7,849,029	\$ 4,891,382

3. Inventory

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
Raw materials	\$ 3,523,459	\$ 3,670,084
Finished goods	668,856	213,129
Packing materials	156,653	63,980
	\$ 4,348,968	\$ 3,947,193

4. Related Party Balances and Related Party Transactions

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

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	\$ 888,964	\$ 530,672
Less: current portion	888,964	530,672
Long-term portion	\$ NIL	\$ NIL

Migao and LYEDC are related due to common control. Expenses paid by LYEDC, on behalf of the Company, in the amount of \$833,212 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. These amounts are non-interest bearing and due on demand.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

5. Plant and Equipment

Book	December 31, 2006 (Unaudited)		
	Cost	Accumulated Amortization	Net Value
Buildings and improvements	\$ 9,737,794	\$ 458,371	\$ 9,279,423
Machinery and equipment	14,155,044	1,511,006	12,644,038
Vehicles	712,684	224,515	488,169
Office equipment	294,540	83,206	211,334
	\$ 24,900,062	\$ 2,277,098	\$ 22,622,964
			September 30, 2006 (Audited)
	Cost	Accumulated Amortization	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

Amortization expense for the three months period ended December 31, 2006 was \$352,792 (December 31, 2005 - \$197,881).

6. Land Use Rights

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
Land use rights	\$ 12,392,985	\$ 7,859,142
Less: accumulated amortization	34,193	30,159
	\$ 12,358,792	\$ 7,828,983

As of December 31, 2006, the Company had twelve land leases from the Chinese government with terms of fifty to seventy years.

Amortization expense for the three months period ended December 31, 2006 was \$2,193 (December 31, 2005 - \$2,114) and is included in general and administrative expenses.

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

6. Land Use Rights - continued

As of December 31, 2006, the Company had not obtained the land use right certificates for eight of the land leases and approximately \$3.5 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 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.

7. Bank Indebtedness

At December 31, 2006, the Company has five short-term bank loans outstanding totaling \$4,926,900 (RMB 33 million) for working capital and general corporate purposes. On January 10, 2007, the bank loan in the amount of \$1.49 million (RMB 10 million) was paid off.

<u>Amount</u>	<u>Due Date</u>	<u>Interest per annum</u>	<u>Secured by</u>
\$ 447,900	on demand	-	guarantee payment made
\$ 1,493,000	April 25, 2007	5.85%	certain land use rights
\$ 746,500	July 26, 2007	6.426%	certain land use rights
\$ 746,500	October 26, 2007	6.426%	certain land use rights
\$ 1,493,000	January 10, 2007	5.655%	certain properties and land use rights

8. Share Capital

(a) **Authorized:**

Unlimited common shares without par value; and

Unlimited preference shares without par value.

(b) **Issued common shares**

	Number of Shares	Amount
Balance – September 30, 2006	29,111,921	\$ 28,729,591
Issued on exercise of underwriters' compensation options (i)	53,449	152,330
Fair value of underwriters' compensation options (i)		58,259
Fair value of warrants issued (i)		(24,854)
Balance - December 31, 2006	29,165,370	\$ 28,915,326

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

8. Share Capital - continued

(b) Issued common shares - continued

- (i) Each of the 53,449 underwriters' compensation options exercised consists of 1 common share and ½ common share purchase warrants. They were valued at \$1.09 per option. The warrants issued on the exercise of these options are valued at \$0.93 per warrant with the following assumptions: dividend yield 0%; risk-free interest rate 4.08%; expected volatility 66%; and expected life of 1.6 years.

(c) Contributed surplus

	Amount
Balance – September 30, 2006	\$ 2,955,592
Exercise of underwriters' compensation options	(58,259)
Fair value of warrants issued on the exercise of underwriters' compensation options	24,854
Stock-based compensation expense	250,500
Balance - December 31, 2006	\$ 3,172,687

(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, 2006	1,165,000	\$ 2.85
Granted during the quarter	-	-
Outstanding - December 31, 2006	1,165,000	\$ 2.85

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For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

8. Share Capital - continued

(d) Stock options - continued

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	4.38	NIL

During the year ended September 30, 2006, 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 quarter ended December 31, 2006 was \$250,500 (2005 – NIL).

(e) Warrants

	Number of Warrants	Weighted average exercise price
Outstanding – September 30, 2006	3,181,500	\$ 3.70
Issued during the quarter	26,725	3.70
Outstanding - December 31, 2006	3,208,225	\$ 3.70

9. 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 December 31, 2006 was \$849,509 (RMB 5,865,266; September 30, 2006 – RMB 3,153,714).

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2006

(in Canadian dollars)

(Unaudited)

10. Accumulated Other Comprehensive Income

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – September 30, 2006	\$ (146,877)
Unrealized foreign currency translation gains during the quarter	2,815,578
Balance – December 31, 2006	\$ 2,668,701

11. 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.

12. Commitments and Contingencies

Purchase commitments for raw materials and supplies in the amount of \$475,827 (RMB 3.2 million) exist as of December 31, 2006. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of \$1,175,032 (RMB 7.9 million) exist as of December 31, 2006. These contracts are entered into in the normal course of business.

13. Subsequent Event

On January 15, 2007, the Company took out a short-term bank loan in the amount of \$2,986,000 (RMB 20 million) for working capital and general corporate purposes. It is due on September 30, 2007, bears interest at 6.6% per annum, and is secured by certain properties and land use rights.