



**Unaudited Interim Consolidated Financial Statements for  
the Three and Six Months Ended January 31, 2011**

**MBAC FERTILIZER CORP.****Interim Consolidated Balance Sheets**

As at January 31, 2011 and July 31, 2010 (In thousands of Canadian dollars)

	January 31, 2011	July 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 52,237	\$ 63,349
Accounts receivable	1,965	773
Inventories (Note 3)	1,597	1,450
Other current assets	574	576
	<b>56,373</b>	66,148
Investments (Note 4)	264	564
Property, plant and equipment (Note 5)	12,406	9,898
Mineral properties (Note 6)	63,772	60,704
	<b>\$ 132,815</b>	\$ 137,314
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,061	\$ 3,175
Deferred revenue	21	188
	<b>2,082</b>	3,363
Future income taxes (Note 7)	3,843	15,254
Asset retirement obligation	78	51
	<b>6,003</b>	18,668
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	139,731	139,731
Contributed surplus	16,848	14,264
Accumulated other comprehensive income	3,335	2,176
Deficit	(33,102)	(37,525)
	<b>126,812</b>	118,646
	<b>\$ 132,815</b>	\$ 137,314

**Commitments** (Note 10)

ON BEHALF OF THE BOARD:

\_\_\_\_\_  
"Peter Marrone"  
**Peter Marrone**  
Director

\_\_\_\_\_  
"Antenor Silva Jr."  
**Antenor Silva Jr.**  
Director

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

**MBAC FERTILIZER CORP.**
**Interim Consolidated Statements of Operations**

For the periods ended (In thousands of Canadian dollars except for per share amounts)

	Three months ended		Six months ended	
	January 31		January 31	
	2011	2010	2011	2010
Sales	\$ 957	\$ 388	\$ 3,219	\$ 1,355
Cost of sales	1,039	782	1,931	1,485
Gross profit (loss)	(82)	(394)	1,288	(130)
Operating expenses				
Selling, general and administrative expenses	3,226	3,886	5,920	5,509
Stock-based compensation (Note 9)	1,199	3,468	2,584	9,270
	4,425	7,354	8,504	14,779
Operating loss	(4,507)	(7,748)	(7,216)	(14,909)
Foreign exchange loss	(12)	(1,248)	(24)	(750)
Interest income	159	26	265	57
Other income	-	99	21	120
Realized gain on sale of available-for-sale securities (Note 4)	-	-	642	-
Write-off of deferred exploration assets (Note 6)	(751)	-	(751)	-
Loss before income taxes	(5,111)	(8,871)	(7,063)	(15,482)
Current income taxes (Note 7)	130	13	130	54
Future income tax recovery (Note 7)	(11,815)	(18)	(11,616)	(43)
	(11,685)	(5)	(11,486)	11
Net income (loss)	\$ 6,574	\$ (8,866)	\$ 4,423	\$ (15,493)
Basic income (loss) per share (Note 8(b))	\$ 0.09	\$ (0.15)	\$ 0.06	\$ (0.28)
Diluted income (loss) per share (Note 8(b))	\$ 0.08	\$ (0.15)	\$ 0.06	\$ (0.28)

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

**MBAC FERTILIZER CORP.**
**Interim Consolidated Statements of Comprehensive Income**

For the periods ended (In thousands of Canadian dollars)

	Three months ended		Six months ended	
	January 31		January 31	
	2011	2010	2011	2010
Net income (loss)	\$ 6,574	\$ (8,866)	\$ 4,423	\$ (15,493)
Other comprehensive income				
Unrealized gain (loss) on available-for-sale investment, net of taxes (Note 4)	(65)	(128)	(238)	21
Unrealized gain (loss) on translation of self-sustaining foreign operations	(37)	(1,063)	1,397	(359)
	(102)	(1,191)	1,159	(338)
Comprehensive income (loss)	\$ 6,472	\$ (10,057)	\$ 5,582	\$ (15,831)

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

**MBAC FERTILIZER CORP.**
**Interim Consolidated Statements of Shareholders' Equity**

For the periods ended (In thousands of Canadian dollars except for number of shares)

	Six months ended January 31, 2011	Year ended July 31, 2010
<b>Common shares (in shares)</b>		
Balance, beginning	72,689,336	11,856,256
Shares issued as equity financing, net of costs	-	4,538,500
Conversion of Founders' special warrants	-	462,375
Shares issued as compensation	-	65,000
Balance, FinCO prior to reverse takeover <i>(Note 1)</i>	72,689,336	16,922,131
Pursuant to the acquisition of FinCO <i>(Note 1)</i>	-	(16,922,131)
Outstanding shares of the Company prior to acquisition <i>(Note 1)</i>	-	31,607,361
Exchange of shares on reverse takeover <i>(Note 1)</i>	-	1,057,633,188
Share consolidation under amalgamation agreement <i>(Note 1)</i>	-	(1,016,624,546)
Stock options exercised	-	73,333
	<b>72,689,336</b>	<b>72,689,336</b>
<b>Common shares</b>		
Balance, beginning	\$ 139,731	\$ 86,226
Shares issued as equity financing, net of costs	-	53,442
Reverse takeover transaction costs	-	(356)
Shares issued as compensation	-	261
Stock options exercised	-	158
	<b>139,731</b>	<b>139,731</b>
<b>Contributed surplus</b>		
Balance, beginning	14,264	1,979
Stock-based compensation expense for the period <i>(Note 9)</i>	2,584	12,285
Options assumed on reverse takeover <i>(Note 1)</i>	-	48
Transfer on the exercise of stock options <i>(Note 9)</i>	-	(48)
	<b>16,848</b>	<b>14,264</b>
<b>Deficit</b>		
Balance, beginning	(37,525)	(1,939)
Net income (loss)	4,423	(36,130)
Reverse takeover transfer of legal parent share capital	-	544
Balance, ending	(33,102)	(37,525)
Accumulated other comprehensive income	3,335	2,176
	<b>(29,767)</b>	<b>(35,349)</b>
Total shareholders' equity	\$ 126,812	\$ 118,646

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

**MBAC FERTILIZER CORP.**
**Interim Consolidated Statements of Cash Flows**

For the periods ended (In thousands of Canadian dollars)

	Three months ended		Six months ended	
	January 31		January 31	
	2011	2010	2011	2010
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net income (loss)	\$ 6,574	\$ (8,866)	\$ 4,423	\$ (15,493)
Add (deduct) items not affecting cash:				
Depreciation and depletion	76	54	238	125
Shares issued as compensation, including stock options	1,199	3,468	2,584	9,531
Future income tax recovery	(11,815)	(18)	(11,616)	(43)
Loss (gain) on disposal of property, plant and equipment	10	(99)	10	(120)
Foreign exchange loss	12	1,248	24	750
Gain on sale of available-for-sale securities	-	-	(642)	-
Write-off of deferred exploration assets (Note 6)	751	-	751	-
	(3,193)	(4,213)	(4,228)	(5,250)
Net change in non-cash working capital (Note 11(a))	438	1,493	(2,526)	739
	(2,755)	(2,720)	(6,754)	(4,511)
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(1,376)	(2,500)	(2,588)	(3,495)
Exploration, evaluation and mine development expenditures	(1,224)	(2,642)	(2,500)	(4,353)
Proceeds of disposition of property, plant and equipment	26	66	26	128
Investments	(126)	-	(126)	-
Proceeds on sale of available-for-sale securities (Note 4)	-	-	786	-
	(2,700)	(5,076)	(4,402)	(7,720)
<b>Financing activities</b>				
Issuance of common shares, net of transaction costs	-	53,519	-	53,519
Cash acquired from reverse takeover transaction (Note 1)	-	346	-	346
Cash received on stock options exercised	-	60	-	60
	-	53,925	-	53,925
Foreign currency effect on cash	101	(166)	44	(85)
Increase (decrease) in cash	(5,354)	45,963	(11,112)	41,609
Cash, beginning	57,591	36,349	63,349	40,703
Cash, ending	\$ 52,237	\$ 82,312	\$ 52,237	\$ 82,312

**Supplementary cash flow information** (Note 11)

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

## **Notes to Interim Consolidated Financial Statements**

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

### **1. BASIS OF CONSOLIDATION AND PRESENTATION**

The accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the assets, liabilities and operations of MBAC Fertilizer Corp. ("MBAC" or the "Company") and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

These interim consolidated financial statements of the Company do not include all information and note disclosure as required under Canadian GAAP for annual financial statements and should be read in conjunction with the Company's July 31, 2010 audited consolidated financial statements and the corresponding notes thereto.

MBAC is a Toronto-based company engaged in the mining, production and exploration of phosphate and potash fertilizer in Brazil. In October 2008, MBAC indirectly acquired 100% interest in Itafós Mineração Ltda. ("Itafós"), which wholly owns all interests in the Itafós phosphate mine and related infrastructure in Brazil.

The Company's sales are subject to quarterly variances due to the seasonality of the Company's production cycle and customers' purchasing cycles impacted by the seasonal nature of the fertilizer business in Brazil. The first and last quarter of each fiscal year for the Company historically generate substantially more sales than during the second and third quarters of the fiscal year.

On December 24, 2009, pursuant to a reverse takeover transaction, the Company completed the acquisition of all of the outstanding common shares of MBAC Opportunities and Financing Inc. ("FinCO"), in exchange for common shares of the Company. These interim consolidated financial statements of MBAC for the three and six months ended January 31, 2011 reflect the assets, liabilities and results of operations of FinCO, the legal subsidiary, prior to the acquisition and the consolidated assets, liabilities and results of operations of the Company and FinCO subsequent to the acquisition.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Future accounting changes based on recent accounting pronouncements**

CICA Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The impact of implementation of this standard will not be material to the Company's consolidated financial statements.

CICA Section 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interests, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The impact of implementation of this standard is not expected to be material to the Company's consolidated financial statements.

**MBAC FERTILIZER CORP.**

**Notes to Interim Consolidated Financial Statements**

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

**3. INVENTORIES**

	<b>January 31, 2011</b>	July 31, 2010
Raw materials	\$ 46	\$ 12
Processed phosphate held in finished goods stockpiles	1,396	1,359
Spare parts and supplies	155	79
	<b>\$ 1,597</b>	<b>\$ 1,450</b>

**4. INVESTMENTS**

Available-for-sale investments	<b>January 31, 2011</b>			July 31, 2010		
	Cost	Fair value	Cumulative amount in other comprehensive income	Cost	Fair value	Cumulative amount in other comprehensive income
Redstone Resources Ltd.						
Common shares	\$ 133	190	\$ 57	\$ 144	485	\$ 341
Warrants	7	74	67	14	79	65
	<b>\$ 140</b>	<b>264</b>	<b>\$ 124</b>	<b>\$ 158</b>	<b>564</b>	<b>\$ 406</b>

During the six-month period, the Company sold 2,000,000 common shares of Redstone Resources Ltd. for proceeds of \$786 and a realized gain of \$642.

The financial instruments presented above are classified as Level 1 instruments as their fair value is obtained from unadjusted quoted prices from an active market.

**5. PROPERTY, PLANT AND EQUIPMENT**

	<b>January 31, 2011</b>			July 31, 2010		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Property, plant and equipment	\$ 4,675	(655)	\$ 4,020	\$ 4,506	(444)	\$ 4,062
Cost of non-depreciable items:						
Land	3,453	-	3,453	3,367	-	3,367
Assets under construction	4,933	-	4,933	2,469	-	2,469
	<b>\$ 13,061</b>	<b>(655)</b>	<b>\$ 12,406</b>	<b>\$ 10,342</b>	<b>(444)</b>	<b>\$ 9,898</b>

**MBAC FERTILIZER CORP.**
**Notes to Interim Consolidated Financial Statements**

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

**6. MINERAL PROPERTIES**

	January 31, 2011			July 31, 2010		
	Cost	Accumulated Depletion	Net book value	Cost	Accumulated Depletion	Net book value
Depletable producing property						
Itafós project	\$ 61,996	(176)	\$ 61,820	\$ 59,716	(88)	\$ 59,628
Exploration properties						
Coastal potash project	72	-	72	710	-	710
Santana phosphate project	909	-	909	88	-	88
Carmo phosphate project	516	-	516	59	-	59
Regional phosphate project	268	-	268	171	-	171
Other projects	187	-	187	48	-	48
	<b>\$ 63,948</b>	<b>(176)</b>	<b>\$ 63,772</b>	<b>\$ 60,792</b>	<b>(88)</b>	<b>\$ 60,704</b>

During the quarter, the Company relinquished approximately 776 thousand hectares of its coastal potash project exploration permit and wrote off \$751 of deferred costs.

**7. INCOME TAXES**

The following table reconciles the statutory rate with the effective income tax rate :

	Three months ended January 31		Six months ended January 31	
	2011	2010	2011	2010
Combined Canadian federal and provincial statutory tax rate	29.40 %	30.99 %	29.40 %	30.99 %
Current and future tax rate differential	3.12	(1.26)	(0.72)	(0.92)
Difference in foreign tax rates	20.12	1.02	20.94	0.64
Permanent differences	(2.13)	(17.71)	(13.09)	(22.51)
Expired losses	(14.01)	-	(14.01)	-
Recognition of losses not previously recognized	6.48	-	6.48	-
Future tax asset on goodwill	120.61	-	120.61	-
Change in valuation allowance	38.68	(12.99)	13.00	(8.27)
Effective tax rate	<b>202.27 %</b>	0.05 %	<b>162.61 %</b>	(0.07)%
Income tax expense is represented by				
Current income tax expense	\$ 130	\$ 13	\$ 130	\$ 54
Future income tax expense (recovery)	(11,815)	(18)	(11,616)	(43)
Net income tax expense (recovery)	<b>\$ (11,685)</b>	<b>\$ (5)</b>	<b>\$ (11,486)</b>	<b>\$ 11</b>

## **Notes to Interim Consolidated Financial Statements**

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

### **7. INCOME TAXES (continued)**

On January 31, 2011, a wholly-owned foreign subsidiary of MBAC, merged into its wholly-owned subsidiary, which entitled the Company to a tax deduction equal to the excess purchase price paid for the acquisition of the Itafós assets over the net book value of the net realizable assets at the time of the initial acquisition in October 2008. The deduction gives rise to a future tax benefit of \$8,519, which though realizable over the estimated life of the mineral reserve, was recorded during the quarter. As the tax deduction is utilized in future years, the tax asset will be reduced accordingly.

In addition, a future tax recovery of \$3,212 has been recognized during the second quarter of 2011 in respect of operating losses available for carry-forward of wholly-owned subsidiary foreign subsidiary.

The interpretation of tax regulations and legislation and their application to MBAC's business is complex and subject to change. Accordingly, the Company's ability to realize future income tax assets, could significantly affect net income or cash flow in future periods.

### **8. SHARE CAPITAL**

#### **(a) Authorized capital**

The Company is authorized to issue unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series.

#### **(b) Weighted average number of common shares and dilutive common share equivalents**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>January 31</b>		<b>January 31</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
Weighted average number of common shares	<b>72,689,336</b>	59,152,739	<b>72,689,336</b>	54,619,377
Weighted average number of dilutive share purchase options	<b>7,742,709</b>	-	<b>7,443,504</b>	-
Diluted weighted average number of common shares	<b>80,432,045</b>	59,152,739	<b>80,132,840</b>	54,619,377

The dilutive effect of share purchase options has not been included in the calculation of the weighted average number of common shares of the prior fiscal year as their impact would be anti-dilutive.

### **9. STOCK-BASED COMPENSATION**

During the three and six month periods ended January 31, 2011, the Company issued 823,849 and 890,758 share purchase options respectively. For the three and six month periods ended January 31, 2011, total fair values of \$753 and \$821 were estimated for these share purchase options.

The following is a summary of the issued share purchase options to acquire common shares as at the period end and the changes thereof during the period:

## Notes to Interim Consolidated Financial Statements

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

### 9. STOCK-BASED COMPENSATION (continued)

	Six months ended		Year ended	
	January 31 2011		July 31 2010	
	Number of options	Weighted average exercise price (Cdn\$)	Number of options	Weighted average exercise price (Cdn\$)
Outstanding, beginning of period	7,123,550	\$ 2.69	-	\$ -
Assumed on reverse takeover	-	-	73,333	1.50
Granted	890,758	2.46	7,123,550	2.69
Exercised	-	-	(73,333)	1.50
Outstanding, end of period	8,014,308	\$ 2.67	7,123,550	\$ 2.69
Exercisable, end of period	5,433,630	\$ 2.57	3,489,085	\$ 2.57

The share purchase options issued during the six months ended January 31, 2011 were recorded using the fair value based method of accounting whereby the fair value of the share purchase options were estimated at the time of grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0 %
Annualized expected price volatility	45 %
Risk-free interest rate	2.21 %
Expected life	4 years

In addition, the Company recognized a total of \$1,199 for the three months ended January 31, 2011 and \$2,584 for the six months ended January 31, 2011 (three and six months ended January 31, 2010 - \$3,468 and \$9,270 respectively) in compensation expense and a corresponding increase in contributed surplus. Under the Company's Stock Option Plan, 400,000 stock options to purchase common shares were available for issuance as at January 31, 2011.

### 10. COMMITMENTS

At January 31, 2011, the Company has future minimum annual operating lease commitments in connection with its leased office spaces, certain communication equipment and with the implementation of an integrated IT system, as follows:

2012	\$ 319
2013	201
2014	151
2015	130
2016 and thereafter	26
	<b>\$ 827</b>

## Notes to Interim Consolidated Financial Statements

For the three and six months ended January 31, 2011  
(In thousands of Canadian Dollars unless otherwise noted)

### 11. SUPPLEMENTARY CASH FLOW INFORMATION

#### (a) Net change in non-cash working capital items

	Three months ended January 31		Six months ended January 31	
	2011	2010	2011	2010
Accounts receivable	\$ 341	\$ 308	\$ (1,145)	\$ (454)
Inventories	184	318	(109)	570
Other current assets	(78)	(219)	16	(248)
Accounts payable and accrued liabilities	153	1,063	(1,120)	1,086
Deferred revenue	(162)	23	(168)	(215)
	<b>\$ 438</b>	<b>\$ 1,493</b>	<b>\$ (2,526)</b>	<b>\$ 739</b>

#### (b) Interest and income taxes paid

	Three months ended January 31		Six months ended January 31	
	2011	2010	2011	2010
Interest paid during the period	\$ 2	\$ 9	\$ 40	\$ 16
Income taxes paid during the period	\$ -	\$ 21	\$ -	\$ 75

### 12. SUBSEQUENT EVENTS

On February 24, 2011 the Company completed a bought deal equity financing and issued 13,685,000 common shares of the Company for aggregate gross proceeds of \$42,424 less transaction costs of approximately \$2,515. The net proceeds are intended to be used to advance the Itafós Expansion Project and the exploration of the Santana project.

### 13. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform with the current period's presentation.