

# **MbAC Fertilizer Corp.**

*(formerly Sandwell Mining Ltd.)*

**Unaudited Interim Consolidated Financial Statements for  
the Three and Nine Months Ended  
April 30, 2010**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

June 8, 2010



**MBAC FERTILIZER CORP.** (formerly Sandwell Mining Ltd.)**Interim Consolidated Statements of Operations***(In thousands of Canadian dollars except for per share amounts; unaudited)*

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Sales	\$ 63	\$ 91	\$ 1,427	\$ 809
Cost of sales	370	55	1,855	879
Gross profit (loss)	(307)	36	(428)	(70)
Operating expenses				
Depreciation	38	30	79	65
Selling, general and administrative expenses	2,881	538	8,349	1,407
Stock-based compensation (Note 9)	1,508	-	10,777	-
	4,427	568	19,205	1,472
Operating loss	(4,734)	(532)	(19,633)	(1,542)
Foreign exchange gain (loss)	430	(72)	(318)	(12)
Interest income	40	73	87	594
Other non-operational income	7	32	128	32
Write-off of deferred exploration and evaluation costs (Note 6)	(1,347)	-	(1,347)	-
Loss before income taxes	(5,604)	(499)	(21,083)	(928)
Current income taxes (Note 7)	-	15	54	51
Future income tax recovery (Note 7)	(777)	(2)	(820)	(45)
	(777)	13	(766)	6
Net loss	\$ (4,827)	\$ (512)	\$ (20,317)	\$ (934)
Basic and diluted loss per share (Note 8(e))	\$ (0.07)	\$ (0.03)	\$ (0.34)	\$ (0.08)

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

**MBAC FERTILIZER CORP.** (formerly Sandwell Mining Ltd.)**Interim Consolidated Statements of Comprehensive Income***(In thousands of Canadian dollars; unaudited)*

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Net loss	\$ (4,827)	\$ (512)	\$ (20,317)	\$ (934)
Other comprehensive income				
Unrealized gain (loss) on available-for-sale investment (Note 5)	(2)	-	19	-
Unrealized gain (loss) on translation of self-sustaining foreign operations	893	839	526	(234)
	891	839	545	(234)
Comprehensive income (loss)	\$ (3,936)	\$ 327	\$ (19,772)	\$ (1,168)

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

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars except for number of shares; unaudited)

	Nine months ended April 30, 2010 (Unaudited)	From incorporation on July 9, 2008 to July 31, 2009 (Audited)
<b>Common shares (in shares)</b>		
Balance, beginning	11,856,256	100
Common shares issued to the founders	-	1,543,066
Shares issued as equity financing, net of costs (Note 8(c))	4,538,500	6,550,117
Shares issued for the acquisition of subsidiary	-	2,517,634
Conversion of founders' special warrants (Note 8(b))	462,375	1,849,444
Shares purchased for cancellation	-	(609,105)
Shares issued as compensation	65,000	5,000
Balance, FinCO prior to reverse takeover (Note 1)	16,922,131	11,856,256
Pursuant the acquisition of FinCO (Note 1)	(16,922,131)	-
Outstanding shares of the Company prior to acquisition (Note 1)	31,607,361	-
Exchange of shares on reverse takeover (Note 1)	1,057,633,188	-
Share consolidation under amalgamation agreement (Note 1)	(1,016,624,545)	-
Stock options exercised	73,333	-
	72,689,337	11,856,256
<b>Common shares</b>		
Balance, beginning	\$ 86,226	\$ -
Common shares issued to founders	-	3,995
Shares issued as equity financing, net of costs (Note 8(c))	53,519	61,463
Shares issued for the acquisition of subsidiary	-	25,176
Shares purchased for cancellation	-	(4,428)
Reverse takeover transaction costs	(356)	-
Shares issued as compensation	261	20
Stock options exercised	158	-
	139,808	86,226
<b>Contributed surplus</b>		
Balance, beginning	1,979	-
Purchase of shares for cancellation	-	1,979
Stock-based compensation expense for the period (Note 9)	10,777	-
Options assumed on reverse takeover (Note 1)	48	-
Transfer of stock-based compensation on the exercise of stock options (Note 9)	(48)	-
	12,756	1,979
<b>Deficit</b>		
Balance, beginning	(1,939)	-
Net loss	(20,317)	(1,939)
Reverse takeover transfer of legal parent share capital	544	-
Deficit, ending	(21,712)	(1,939)
Accumulated other comprehensive income	1,814	1,268
	(19,898)	(671)
Total shareholders' equity	\$ 132,666	\$ 87,534

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

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Consolidated Statements of Cash Flows

(In thousands of Canadian dollars; unaudited)

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net loss	\$ (4,827)	\$ (512)	\$ (20,317)	\$ (934)
Add (deduct) items not affecting cash:				
Depreciation and depletion	85	5	210	91
Shares issued as compensation, including stock options	1,508	20	11,038	20
Future income tax recovery	(777)	(2)	(820)	(45)
Gain on disposal of property, plant and equipment	-	(32)	(120)	(32)
Foreign exchange loss (gain)	(430)	72	318	12
Write-off of deferred exploration and evaluation costs (Note 6)	1,347	-	1,347	-
	(3,094)	(449)	(8,344)	(888)
Net change in non-cash working capital (Note 11(a))	(194)	60	575	1,749
	(3,288)	(389)	(7,769)	861
<b>Investing activities</b>				
Acquisition of subsidiary, including transaction costs of \$1,676 and net of cash acquired of \$35 (Note 2)	-	-	-	(5,636)
Purchase of pyrite asset	-	-	-	(11,910)
Acquisition of property, plant and equipment	(1,832)	(1,001)	(5,327)	(1,130)
Exploration expenditures	(5,222)	(479)	(9,575)	(816)
Proceeds on disposition of property, plant and equipment	120	320	248	320
	(6,934)	(1,160)	(14,654)	(19,172)
<b>Financing activities</b>				
Issuance of common shares, net of transaction costs	-	-	53,519	65,530
Shares purchased for cancellation	-	(2,449)	-	(2,449)
Shareholder loan for acquisition of subsidiary	-	-	-	3,995
Repayment of shareholder loan for acquisition of subsidiary	-	-	-	(3,995)
Repayment of finance lease obligation	(8)	(5)	(38)	(20)
Cash acquired with reverse takeover transaction (Note 1)	-	-	346	-
Cash received on stock options exercised	50	-	110	-
	42	(2,454)	53,937	63,061
Foreign currency effect on cash	(9)	2	(94)	38
Increase (decrease) in cash	(10,189)	(4,001)	31,420	44,788
Cash, beginning	82,312	48,789	40,703	-
Cash, ending	\$ 72,123	\$ 44,788	\$ 72,123	\$ 44,788

### Supplementary cash flow information (Note 12)

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

# **MBAC FERTILIZER CORP.** (formerly Sandwell Mining Ltd.)

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

### **Three and Nine months ended April 30, 2010**

*(In thousands of Canadian Dollars unless otherwise noted; unaudited)*

---

#### **1. Basis of presentation**

The accompanying unaudited 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. (formerly Sandwell Mining Ltd.) ("MBAC" or the "Company") and its wholly-owned subsidiaries. These unaudited interim consolidated financial statements do not contain all the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited annual financial statements of the Company for the period ended July 31, 2009. These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

On December 24, 2009, 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. Pursuant to the terms of an amalgamation (the "Amalgamation Agreement"), the Company issued 1,057,633,188 common shares to acquire the 16,922,131 outstanding common shares of FinCO ("FinCO Shares"). The transaction constituted a reverse takeover transaction ("RTO") of Sandwell Mining Ltd. ("Sandwell") by FinCO for accounting purposes with FinCO as the acquirer. These consolidated financial statements reflect the continuation of the financial statements of FinCO, while the capital structure is that of the Company. Upon completion of the RTO, Sandwell changed its name to MBAC Fertilizer Corp., consolidated its issued and outstanding shares on the basis of one post-consolidation share for every 15 pre-consolidation shares held and continued out of the province of British Columbia pursuant to the Canada Business Corporation Act.

The acquisition of the FinCO Shares pursuant to the Amalgamation Agreement has been accounted for as a RTO transaction in accordance with guidance provided in Emerging Issues Committee ("EIC") Abstract No. 10. Sandwell did not qualify as a business for accounting purposes, and accordingly the transaction has been accounted for as an issuance of shares by FinCO for the net monetary assets of Sandwell of \$306 (including cash of \$346), accompanied by a recapitalization of Sandwell. The total transaction costs associated with the RTO were \$809 of which \$463 has been recorded as general and administrative expense.

Further to the RTO, the interim consolidated financial statements of MBAC for the nine months ended April 30, 2010 reflect the assets, liabilities and results of operations of FinCO, the legal subsidiary, prior to the RTO and the consolidated assets, liabilities and results of operations of the Company and FinCO subsequent to the RTO. These interim consolidated financial statements are issued under the name of the legal parent, but are considered to be a continuation of FinCO.

References herein to US\$ are to United States dollars and R\$ are to the Brazilian Real.

#### **Recent accounting pronouncements**

CICA Section 3862 - Financial Instruments: Disclosures. The standard on financial instruments was amended to include enhanced disclosures about inputs to fair value measurement, including their classification, within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

*Level 1:* Unadjusted quoted prices in active markets for identical assets or liabilities;

*Level 2:* Inputs other than quoted prices that are observable for the asset either directly or indirectly; and

*Level 3:* Inputs are not based on observable market data.

As a result of the adoption of this standard, additional disclosure has been included in *Note 5* to the interim consolidated financial statements.

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Notes to the Interim Consolidated Financial Statements

### Three and Nine months ended April 30, 2010

(In thousands of Canadian Dollars unless otherwise noted; unaudited)

#### 2. Business acquisition

On October 14, 2008 FinCO completed the purchase of Itafós Mineração Ltda. ("Itafós"), a Brazilian phosphate producer for \$29,171. The purchase price was satisfied by the cash payment of \$3,995 and the issuance of 2,517,634 common shares. The results of operations of Itafós from the date of acquisition have been included in the Company's financial statements.

Consideration and transaction costs:

Cash	\$	3,995
Issuance of 2,517,634 common shares		25,176
Transaction costs		1,676
<hr/>		
Purchase price	\$	30,847

Transactions costs incurred on the acquisition of Itafós include \$1,397 which was paid to a company of which one of the directors is also a director of MBAC.

At the beginning of this fiscal year, the Company finalized the purchase price allocation to the fair value of the net assets acquired. As a result, the Company increased Inventory by \$242 and decreased Mineral Properties by \$242. This adjustment does not impact the Company's net income. The acquisition was accounted for using the purchase method and accordingly the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on October 14, 2008 as follows:

Cash	\$	35
Accounts receivable		471
Inventory		1,836
Other assets		77
Mineral properties		43,698
Property, plant and equipment		2,215
Current liabilities		(1,652)
Finance lease obligations		(92)
Asset retirement obligation		(49)
Future income tax liability		(15,692)
<hr/>		
Net assets acquired	\$	30,847

#### 3. Inventories

	April 30, 2010	July 31, 2009
Raw materials	\$ 211	\$ 448
Phosphate held in finished goods stockpiles	696	907
Spare parts and other supplies	58	17
<hr/>		
	\$ 965	\$ 1,372

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Notes to the Interim Consolidated Financial Statements

### Three and Nine months ended April 30, 2010

(In thousands of Canadian Dollars unless otherwise noted; unaudited)

#### 4. Pyrite asset

This represents amounts paid to a corporation, related by virtue of certain common directors, to acquire an option to purchase pyrite concentrate for use in the production of phosphate fertilizers. The Company is required to provide quality specifications and a feasibility study for the construction of a sulphuric acid production facility by March 14, 2011.

#### 5. Investments

Available-for-sale investments	% of ownership	April 30, 2010			July 31, 2009	
		Cost	Fair value	Cumulative amount in other comprehensive income	Fair value	Cumulative amount in other comprehensive income
Redstone Resources Ltd.						
Common shares	2.5%	\$ 144	169	\$ 25	\$ 144	\$ -
Warrants		14	8	(6)	14	-
		\$ 158	177	\$ 19	\$ 158	\$ -

Available for sale securities are reviewed periodically for possible other-than-temporary impairment and more frequently when economic or market concerns warrant such evaluation.

The common shares and warrants presented above are classified as Level 1 instruments as their fair value is obtained from unadjusted quoted prices from an active market. The total fair value of these instruments was \$177 as at April 30, 2010.

#### 6. Property, plant and equipment

	April 30, 2010			July 31, 2009		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Mineral properties and exploration rights	\$ 45,393	(42)	\$ 45,351	\$ 44,843	-	\$ 44,843
Exploration and evaluation assets	10,839	(10)	10,829	2,596	-	2,596
Property, plant and equipment	4,312	(353)	3,959	2,971	(123)	2,848
Cost of non-depreciable items:						
Land	2,896	-	2,896	331	-	331
Assets under construction	1,726	-	1,726	524	-	524
	\$ 65,166	(405)	\$ 64,761	\$ 51,265	(123)	\$ 51,142

Finance lease obligation consists of \$22 (July 31, 2009 - \$60) debt related to leased vehicles. The debt is secured by the underlying vehicles with monthly payments until July 2011 and bearing interest at rates ranging from 16% to 20% per annum.

During the quarter, the Company decided to abandon further exploration efforts in connection with the Apui and Aneba projects which were acquired in the first quarter of fiscal 2010. In addition, the Company also decided to relinquish approximately one (1) million hectares of the Coastal Potash Project exploration permits. Based on these decisions, the amount of deferred costs written-off during the quarter for the three (3) projects was \$1,347.

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Notes to the Interim Consolidated Financial Statements

### Three and Nine months ended April 30, 2010

(In thousands of Canadian Dollars unless otherwise noted; unaudited)

#### 7. Income taxes

The following table reconciles the statutory rate with the effective income tax rate in these financial statements:

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Combined Canadian federal and provincial statutory tax rate	30.99 %	33.00 %	30.99 %	33.00 %
Changes in future tax rates	(1.42)	(0.73)	(1.05)	1.28
Difference in foreign tax rates	1.47	0.69	0.86	1.24
Permanent differences	(8.33)	(19.20)	(18.75)	(40.39)
Change in valuation allowance	(8.84)	(16.33)	(8.42)	2.74
Effective tax rate	13.87 %	(2.57)%	3.63 %	(2.13)%
Income tax expense is represented by				
Current income tax expense	\$ -	\$ 15	\$ 54	\$ 51
Future income tax recovery	(777)	(2)	(820)	(45)
Net income tax expense (recovery)	\$ (777)	\$ 13	\$ (766)	\$ 6

#### 8. Share capital

##### (a) Authorized capital

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

##### (b) Founders' units special warrants

During the second quarter of fiscal 2010, the Company converted the remaining 20% of the Founder's unit's special warrants issued in August 2008 to the founders of FinCO for a total of 462,375 common shares.

##### (c) Private Placement

In December 2009, the Company completed a private placement and issued 4,538,500 common shares at a price of Cdn\$12.50 each for proceeds, net of transaction costs, of \$53,519.

##### (d) Reverse takeover

In the second quarter of fiscal 2010, the Company and FinCO entered into a RTO transaction as described in *Note 1*. This transaction and the concurrent share consolidation resulted in a net adjustment to the Company's issued common shares of 41,008,643.

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Notes to the Interim Consolidated Financial Statements

### Three and Nine months ended April 30, 2010

(In thousands of Canadian Dollars unless otherwise noted; unaudited)

#### 8. Share capital (continued)

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

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Weighted average number of common shares	72,667,614	16,920,000	60,303,174	12,316,878
Diluted weighted average number of common shares	72,667,614	16,920,000	60,303,174	12,316,878

#### 9. Stock-based compensation

During the three and nine months ended April 30, 2010, the Company issued NIL and 7,123,550 share purchase options, respectively (in effect NIL and 1,709,652 options, respectively, of FinCO prior to the RTO (*Note 1*)). The fair value of these options has been determined to be \$15,452. In the nine months ended April 30, 2010 the Company recognized a total of \$10,777 (July 31, 2009 - \$NIL) in compensation expense in connection with these options and a corresponding increase in contributed surplus.

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:

	Nine months ended April 30, 2010		From incorporation on July 9, 2008 to July 31, 2009	
	Number of options	Weighted average exercise price (Cdn\$)	Number of options	Weighted average exercise price (Cdn\$)
Outstanding, beginning	-	\$ -	-	\$ -
Assumed on reverse takeover	73,333	1.50	-	-
Granted	7,123,550	2.69	-	-
Exercised	(73,333)	1.50	-	-
Outstanding, ending	7,123,550	\$ 2.69	-	\$ -
Exercisable	3,489,085	\$ 2.57	-	\$ -

The share purchase options 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 weighted average assumptions:

Dividend yield	0 %
Annualized expected price volatility	90 %
Risk-free interest rate	1.65 %
Expected life	5 years

# MBAC FERTILIZER CORP. (formerly Sandwell Mining Ltd.)

## Notes to the Interim Consolidated Financial Statements

### Three and Nine months ended April 30, 2010

(In thousands of Canadian Dollars unless otherwise noted; unaudited)

#### 10. Commitments

At April 30, 2010, the Company has future minimum annual operating lease commitments in connection with its leased office spaces, certain office equipment and laboratory installation services, as follows:

2011	\$	507
2012		222
2013		123
2014		102
2015 and thereafter		-
	\$	954

#### 11. Supplementary cash flow information

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

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Accounts receivable	\$ 380	\$ 26	\$ (74)	\$ 389
Inventories	(151)	(57)	419	651
Other current assets	(212)	(624)	(460)	(654)
Accounts payable and accrued liabilities	(210)	627	906	1,201
Deferred revenue	(1)	88	(216)	162
	\$ (194)	\$ 60	\$ 575	\$ 1,749

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

	Three months ended April 30		Nine months ended April 30	
	2010	2009	2010	2009
Interest paid during the period	\$ 23	\$ 12	\$ 39	\$ 18
Income taxes paid during the period	\$ -	\$ 77	\$ 75	\$ 136

#### 12. Comparatives figures

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