

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

| | <u>June 30,</u> <u>2010</u> | <u>December 31,</u> <u>2009</u> |
|--|--------------------------------|------------------------------------|
| | (unaudited) | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 24,027,490 | \$ 37,580,154 |
| Accounts receivable, net of allowance for doubtful accounts of \$609,980 and \$415,765 | 17,415,553 | 14,397,793 |
| Advances to suppliers | 289,829 | 1,173,941 |
| Other receivables | 1,820,684 | 2,186,643 |
| Inventory | 27,287,750 | 23,835,412 |
| Prepaid expenses | 1,388,865 | 1,325,150 |
| Debt issue costs | 19,785 | 34,706 |
| | <hr/> | <hr/> |
| Total current assets | 72,249,956 | 80,533,799 |
| PROPERTY AND EQUIPMENT, net | 33,913,168 | 26,991,851 |
| CONSTRUCTION-IN-PROCESS | 5,595,137 | 7,615,132 |
| INTANGIBLE ASSETS, net | 43,944,086 | 43,808,499 |
| OTHER ASSETS | 7,149,532 | 3,998,739 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 162,851,879 | \$ 162,948,020 |
| <u>LIABILITIES AND EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Short-term loan | \$ 4,419,000 | \$ 4,401,000 |
| Accounts payable | 6,800,705 | 6,162,385 |
| Other payables | 2,282,587 | 1,892,858 |
| Unearned revenue | 328,855 | 582,266 |
| Accrued expenses | 144,092 | 83,649 |
| Accrued payroll | 734,515 | 975,485 |
| Tax and welfare payable | 472,577 | 396,370 |
| Interest payable | 155,614 | 120,419 |
| Convertible notes, net of discount of \$46,561 | 953,439 | - |
| | <hr/> | <hr/> |
| Total current liabilities | 16,291,384 | 14,614,432 |

| | | |
|--|-----------------------|-----------------------|
| CONVERTIBLE NOTES, net of debt discount of \$81,675 | - | 918,325 |
| TOTAL LIABILITIES | 16,291,384 | 15,532,757 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | - | - |
| EQUITY: | | |
| AgFeed stockholders' equity: | | |
| Common stock, \$0.001 per share; 75,000,000 shares authorized; 45,420,558 issued and 45,053,263 outstanding at June 30, 2010 44,510,558 issued and 44,143,263 outstanding at December 31, 2009 | 45,421 | 44,511 |
| Additional paid-in capital | 112,903,436 | 109,281,086 |
| Deferred compensation | (3,086,560) | - |
| Other comprehensive income | 4,475,896 | 4,176,450 |
| Statutory reserve | 5,207,997 | 4,685,115 |
| Treasury stock (367,295 shares) | (1,811,746) | (1,811,746) |
| Retained earnings | 28,800,347 | 31,210,563 |
| Total AgFeed stockholders' equity | 146,534,791 | 147,585,979 |
| Noncontrolling interest (deficit) | 25,704 | (170,716) |
| Total equity | 146,560,495 | 147,415,263 |
| TOTAL LIABILITIES AND EQUITY | \$ 162,851,879 | \$ 162,948,020 |

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)

| | Three Months Ended June | | Six Months Ended June 30, | |
|---|--------------------------------|-------------------|----------------------------------|-------------------|
| | 30, | | | |
| | 2010 | 2009 | 2010 | 2009 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenues | \$ 37,661,955 | \$ 38,527,770 | \$ 90,521,022 | \$ 71,957,044 |
| Cost of goods sold | <u>35,102,677</u> | <u>33,306,111</u> | <u>81,642,462</u> | <u>60,931,980</u> |
| Gross profit | 2,559,278 | 5,221,659 | 8,878,560 | 11,025,064 |
| Operating expenses | | | | |
| Selling expenses | 983,317 | 999,342 | 2,013,940 | 1,863,209 |
| General and administrative expenses | <u>3,508,696</u> | <u>1,960,520</u> | <u>7,173,081</u> | <u>3,717,692</u> |
| Total operating expenses | 4,492,013 | 2,959,862 | 9,187,021 | 5,580,901 |
| Income (loss) from operations | <u>(1,932,735)</u> | <u>2,261,797</u> | <u>(308,461)</u> | <u>5,444,163</u> |
| Non-operating income (expense): | | | | |
| Other expense | (354,534) | (189,205) | (450,907) | 3,476 |
| Interest income | 38,062 | 52,554 | 86,073 | 113,116 |
| Interest and financing costs | (139,930) | (624,514) | (264,841) | (777,428) |
| Foreign currency transaction gain (loss) | (34,437) | 5,133 | (20,634) | 3,302 |
| Total non-operating expense | <u>(490,839)</u> | <u>(756,032)</u> | <u>(650,309)</u> | <u>(657,534)</u> |
| Income (loss) before provision for income taxes | (2,423,574) | 1,505,765 | (958,770) | 4,786,629 |
| Provision for income taxes | 641,139 | 285,958 | 1,094,719 | 501,508 |
| Net income (loss) including noncontrolling interest | <u>(3,064,713)</u> | <u>1,219,807</u> | <u>(2,053,489)</u> | <u>4,285,121</u> |
| Less: Net income (loss) attributed to noncontrolling interest | (109,961) | (6,445) | (166,155) | 40,029 |
| Net income (loss) attributed to AgFeed | <u>(2,954,752)</u> | <u>1,226,252</u> | <u>(1,887,334)</u> | <u>4,245,092</u> |
| Other comprehensive income (loss) | | | | |
| Foreign currency translation gain (loss) | 298,682 | 5,953 | 299,446 | (147,901) |

| | | | | |
|--|-----------------------|---------------------|-----------------------|---------------------|
| Comprehensive Income (loss) | <u>\$ (2,656,070)</u> | <u>\$ 1,232,205</u> | <u>\$ (1,587,888)</u> | <u>\$ 4,097,191</u> |
| Weighted average shares outstanding : | | | | |
| Basic | <u>45,015,351</u> | <u>39,549,944</u> | <u>44,942,821</u> | <u>38,746,009</u> |
| Diluted | <u>45,015,351</u> | <u>41,446,344</u> | <u>44,942,821</u> | <u>39,581,891</u> |
| Earnings (loss) per share attributed to AgFeed common stockholders: | | | | |
| Basic | <u>\$ (0.07)</u> | <u>\$ 0.03</u> | <u>\$ (0.04)</u> | <u>\$ 0.11</u> |
| Diluted | <u>\$ (0.07)</u> | <u>\$ 0.03</u> | <u>\$ (0.04)</u> | <u>\$ 0.11</u> |

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | <u>Six Months Ended June 30,</u> | |
|--|----------------------------------|----------------|
| | <u>2010</u> | <u>2009</u> |
| | (unaudited) | (unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) including noncontrolling interest | \$ (2,053,489) | \$ 4,285,121 |
| Adjustments to reconcile net income (loss) including noncontrolling interest to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,575,933 | 1,282,959 |
| Amortization | 43,410 | 38,779 |
| Loss on disposal of assets | 1,321,838 | 524,409 |
| Stock based compensation | 150,562 | 282,497 |
| Issuance of common stock for services | 751,440 | - |
| Amortization of debt issuance costs | 14,921 | 196,348 |
| Amortization of discount on convertible debt | 35,114 | 462,073 |
| (Increase) / decrease in assets: | | |
| Accounts receivable | (2,945,382) | (5,163,082) |
| Other receivables | 618,255 | 1,530,631 |
| Inventory | (3,340,955) | (1,932,432) |
| Advances to suppliers | 885,238 | (171,112) |
| Prepaid expenses | (59,691) | (186,209) |
| Other assets | - | 139,541 |
| Increase / (decrease) in current liabilities: | | |
| Accounts payable | 610,581 | 1,150,362 |
| Other payables | (137,439) | (2,011,532) |
| Unearned revenue | (254,731) | (57,926) |
| Accrued expenses | 58,106 | 138,378 |
| Accrued payroll | (243,862) | (155,514) |
| Tax and welfare payable | 74,277 | (182,459) |
| Interest payable | 35,195 | (36,497) |
| | <u>(2,860,679)</u> | <u>134,335</u> |
| Net cash provided by (used in) operating activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases/deposits for property and equipment | (10,759,297) | (6,336,942) |
| Purchase of intangible assets | - | (35,309) |
| Cash paid for purchase of subsidiaries | - | (1,266,374) |
| Cash from the sale of subsidiary | - | 307,650 |

| | | |
|--|-----------------------------|-----------------------------|
| Net cash used in investing activities | <u>(10,759,297)</u> | <u>(7,330,975)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from the sale of common stock | - | 10,000,000 |
| Offering costs paid | - | (1,380,720) |
| Proceeds from short-term loans | - | 4,541,500 |
| Capital contributed by noncontrolling interest holders | 401,282 | 118,664 |
| Purchase of noncontrolling interest in majority owed hog farms | (406,103) | - |
| Net cash provided by (used in) financing activities | <u>(4,821)</u> | <u>13,279,444</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>72,133</u> | <u>(10,101)</u> |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | (13,552,664) | 6,072,703 |
| CASH & CASH EQUIVALENTS, BEGINNING BALANCE | <u>37,580,154</u> | <u>24,839,378</u> |
| CASH & CASH EQUIVALENTS, ENDING BALANCE | <u>\$ 24,027,490</u> | <u>\$ 30,912,081</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid | <u>\$ 204,969</u> | <u>\$ 147,982</u> |
| Income taxes paid | <u>\$ 492,843</u> | <u>\$ 416,012</u> |

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

Note 1 - Organization and Basis of Presentation

The unaudited consolidated financial statements were prepared by AgFeed Industries, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") were omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The results for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

Organization and Lines of Business

AgFeed Industries, Inc. formerly known as Wallace Mountain Resources Corp., (hereinafter referred to as the "Company" or "AgFeed") was incorporated in the State of Nevada on March 30, 2005.

The Company is engaged in the research and development, manufacturing, marketing, distribution and sale of pre-mix fodder blended feed and feed additives primarily for use in China's domestic pork husbandry market. The Company operates production plants in Nanchang, Shanghai, Nanning, Shandong, and Hainan provinces. The Company sells to distributors and large-scale swine farms. The Company is also engaged in the business of raising, breeding and selling hogs for use in China's pork production and hog breeding markets through two breeder farms and 29 meat hog producing farms located in Jiangxi, Shanghai, Hainan, Guangxi, and Fujian provinces.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of AgFeed Industries, Inc. and its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles US GAAP. The Company's functional currency is the Chinese Yuan Renminbi ("RMB"); however the accompanying consolidated financial statements have been translated and presented in United States Dollars ("USD").

Noncontrolling Interest

In 2008, the Company purchased interests in 29 producing hog farms and one feed company ranging from 55% to 100% (The Company subsequently purchased the noncontrolling interest in certain of these hog farms).

Certain amounts presented for prior periods previously designated as minority interest have been reclassified to conform to the current year presentation. Effective January 1, 2009, the Company adopted Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," which established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

The net income (loss) attributed to the NCI was been separately designated in the accompanying statements of income and other comprehensive income. Losses attributable to the NCI in a subsidiary may exceed the NCI's interests in the subsidiary's equity. The excess attributable to the NCI is attributed to those interests. The NCI shall continue to be attributed its share of losses even if that attribution results in a deficit NCI balance.

Foreign Currency Translation

The accounts of the Company's Chinese subsidiaries are maintained in RMB and the accounts of the U.S. parent company are maintained in USD. The accounts of the Chinese subsidiaries were translated into USD in accordance with Accounting Standards Codification ("ASC") Topic 830 "Foreign Currency Matters," with the RMB as the functional currency for the Chinese subsidiaries. According to Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholders' equity is translated at historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statements of income.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain prior period amounts were reclassified to conform to the current presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

Advances to Suppliers

The Company makes advances to certain vendors for purchases of material. The advances are interest free and unsecured.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

Inventory

Inventory is stated at the lower of cost, as determined by weighted-average method, or market. Management compares the cost of inventories with their market value, and an allowance is made for writing down the inventories to their market value, if lower. Costs of raised animals include proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the balance sheet date. Purchased pigs are carried at purchase cost plus costs of maintenance through the balance sheet date.

Inventory consisted of the following at June 30, 2010 and December 31, 2009:

| | June 30, | December 31, |
|--------------------------------|----------------------|----------------------|
| | 2010 | 2009 |
| | | (audited) |
| Raw material | \$ 7,754,572 | \$ 7,638,999 |
| Work in Process | 143,833 | 84,494 |
| Finished Goods - feed | 922,754 | 460,349 |
| Finished Goods - hogs | 18,771,927 | 15,703,127 |
| | <u>27,593,086</u> | <u>23,886,969</u> |
| Less: reserve for obsolescence | (305,336) | (51,557) |
| | <u>\$ 27,287,750</u> | <u>\$ 23,835,412</u> |

Property & Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

| | |
|------------------------|-----------|
| Office equipment | 5 years |
| Operating equipment | 10 years |
| Vehicles | 5 years |
| Swine for reproduction | 3.5 years |
| Buildings | 20 years |

The following are the details of property and equipment at June 30, 2010 and December 31, 2009:

| | <u>June 30,</u> <u>2010</u> | <u>December 31,</u> <u>2009</u> (audited) |
|-------------------------------|--------------------------------|---|
| Office equipment | \$ 550,125 | \$ 525,991 |
| Operating equipment | 8,164,330 | 4,655,298 |
| Vehicles | 950,845 | 871,058 |
| Swines for reproduction | 13,410,505 | 13,432,353 |
| Buildings | <u>16,129,584</u> | <u>11,659,693</u> |
| Total | 39,205,389 | 31,144,393 |
| Less accumulated depreciation | <u>(5,292,221)</u> | <u>(4,152,542)</u> |
| | <u>\$ 33,913,168</u> | <u>\$ 26,991,851</u> |

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

Construction-in-Process

Construction-in-process consists of amounts expended for building construction. Once building construction is completed, the cost accumulated in construction-in-process is transferred to property and equipment.

Long-Lived Assets

The Company applies the provisions of ASC Topic 360, "Property, Plant, and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Based on its review, the Company believes that as of June 30, 2010 and December 31, 2009, there was no significant impairment of its long-lived assets.

Intangible Assets

The following are the details of intangible assets at June 30, 2010 and December 31, 2009:

| | June 30, 2010 | December 31, 2009 (audited) |
|---|------------------|-----------------------------------|
| Right to use land | \$ 771,092 | \$ 825,007 |
| Customer list | 294,600 | 293,400 |
| Computer software | 222,732 | 159,894 |
| Intangible related to hog farm acquisitions | 42,919,071 | 42,744,247 |
| Total | 44,207,495 | 44,022,548 |
| Less Accumulated amortization | (263,409) | (214,049) |
| Intangibles, net | \$ 43,944,086 | \$ 43,808,499 |

Per the People's Republic of China's ("PRC") governmental regulations, the PRC Government owns all Chinese land. The Company leases land per real estate contracts with the government of the PRC for periods of 30 to 50 years. Accordingly, the right to use land for these feed companies is amortized over 50 years or the lease term, if shorter, and the computer software is amortized over three to nine years. For hog farms, the Company generally signed land leases with original owners of the farms.

Revenue Recognition

The Company's revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. The Company is not subject to VAT withholdings. The Company gives volume rebates to certain customers based on volume achieved. The Company accrues sales rebates based on actual sales volume.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the three and six months ended June 30, 2010 and 2009 were not significant.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three and six months ended June 30, 2010 and 2009 were not significant.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 210,000 options outstanding as of June 30, 2010.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Under ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's consolidated financial statements.

Foreign Currency Transactions and Comprehensive Income

US GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company's Chinese subsidiaries is the RMB. The unit of Renminbi is in Yuan. Translation gains are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Basic and Diluted Earnings (Loss) Per Share

Earnings per share is calculated in accordance with the ASC Topic 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock warrants were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings (loss) per share computations for the three and six months ended June 30, 2010 and 2009:

| Three months ended June 30, | 2010 | | 2009 | |
|---|-------------------|------------------|-------------------|----------------|
| | Shares | Per Share | Shares | Per Share |
| | | Amount | | Amount |
| Basic earnings (loss) per share | 45,015,351 | \$ (0.07) | 39,549,994 | \$ 0.03 |
| Effect of dilutive stock options and warrants | - | - | 1,896,400 | - |
| Diluted earnings (loss) per share | <u>45,015,351</u> | <u>\$ (0.07)</u> | <u>41,446,344</u> | <u>\$ 0.03</u> |

| Six months ended June 30, | 2010 | | 2009 | |
|---|-------------------|------------------|-------------------|----------------|
| | Shares | Per Share | Shares | Per Share |
| | | Amount | | Amount |
| Basic earnings (loss) per share | 44,942,821 | \$ (0.04) | 38,746,009 | \$ 0.11 |
| Effect of dilutive stock options and warrants | - | - | 835,882 | - |
| Diluted earnings (loss) per share | <u>44,942,821</u> | <u>\$ (0.04)</u> | <u>39,581,891</u> | <u>\$ 0.11</u> |

Statement of Cash Flows

In accordance ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Segment Reporting

ASC Topic 280, "Segment Report," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 9). The Company had previously reported its feed operations as three separate segments since the three operations were located in different Provinces. The Company determined its feed operations should be reported as one segment.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, advances to suppliers, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. In addition, the Company has long-term debt with financial institutions. The carrying amounts of the line of credit and other long-term liabilities approximate their fair values based on current rates of interest for instruments with similar characteristics.

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815.

As of June 30, 2010 and December 31, 2009, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

Recent Accounting Pronouncements

On July 1, 2009, the Company adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification™ ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the Consolidated Financial Statements.

On February 25, 2010, the FASB issued ASU 2010-09 Subsequent Events Topic 855 "Amendments to Certain Recognition and Disclosure Requirements," effective immediately. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of US GAAP. The FASB believes these amendments remove potential conflicts with the SEC's literature. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain

credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging — Embedded Derivatives — Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are “clearly and closely related” to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company’s consolidated financial statements.

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In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. The Company does not expect this ASU will have a material impact on its financial position or results of operations when it adopts this update on January 1, 2011.

Note 3 – Convertible Notes and Warrants

On February 25, 2008, the Company entered into a Securities Purchase Agreement with Apollo Asia Opportunity Master Fund, L.P., Jabcap Multi-Strategy Master Fund Limited, J-Invest Ltd., and Deutsche Bank AG London Branch (collectively the "Investors") in connection with a private placement providing for, among other things, the issuance of senior convertible notes (the "Notes") for \$19 million and warrants (the "Warrants") to purchase up to 380,000 shares of the Company's common stock \$0.001 par value per share. The Notes mature on February 25, 2011, bear interest at 7% and are convertible into shares of the Company's common stock at an initial conversion price of \$10.00 per share. The conversion price is subject to a "weighted average ratchet" anti-dilution adjustment. The conversion price is also subject to adjustment on a proportional basis, to the extent that the Company's audited net income for the fiscal years ending 2008 and 2009 is less than \$30 million and \$40 million, respectively; subject to a per share floor price of \$5.00. Due to the Company not generating \$30 million net income for the year ended December 31, 2008, the conversion price on the Notes was reduced to \$5.00. Due to the re-pricing of the conversion price, the Company recorded financing cost of \$267,748 during the year ended December 31, 2008 which represented the difference between the fair value of the conversion feature at a \$5.00 conversion price and the original \$10.00 conversion price. The fair value was determined by using the Black-Scholes pricing model with the following assumptions: expected life of 2.2 years, a risk free interest rate of 2.0%, a dividend yield of 0% and volatility of 102%.

The Notes impose penalties on the Company for any failure to timely deliver any shares of its common stock issuable upon conversion.

In connection with the issuance of the Notes and the Warrants issued to the Investors on February 25, 2008, the Company paid \$1,716,666 in debt issuance cost which is amortized over the life of the Notes. For the three and six months ended June 30, 2010 and 2009, the Company amortized \$7,502 and \$14,921 and \$168,155 and \$196,348, respectively, of the aforesaid issuance costs as interest and financing costs in the accompanying consolidated statements of operations.

The Notes contain certain limitations on conversion. For example, they provide no conversion may be made if, after giving effect to the conversion, an Investor would own over 9.99% of the Company's outstanding shares of common stock. In addition, the Notes provide no conversion may be made if the conversion would cause the Company to breach of its obligations under the rules and regulations of the Nasdaq Global Market, unless the Company obtains stockholder approval for such issuances as required by such rules and regulations.

The Warrants are immediately exercisable, expire on February 25, 2011 and entitle their holders to purchase up to \$3,800,000 of shares of common stock at an initial exercise price of \$10.00 per share.

The exercise price of the Warrants is subject to a "weighted average ratchet" anti-dilution adjustment. The exercise price is also subject to adjustment, on a proportional basis, to the extent that the Company's audited net income for the fiscal years ending 2008 and 2009 is less than \$30 million and \$40 million, respectively; subject to a per share floor price of \$5.00. Due to the Company not generating \$30 million net income for the year ended December 31, 2008, the exercise price on the Warrants was reduced to \$5.00. Due to the re-pricing of the exercise price, the Company recorded financing cost of \$22,782 in 2008 which represented the difference between the fair value of the \$5.00 exercise price and the original \$10.00 exercise price. The fair value was determined by using the Black-Scholes pricing model with the following assumptions: expected life of 2.2 years, a risk free interest rate of 2.0%, a dividend yield of 0% and volatility of 102%.

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The Warrants contain certain limitations on exercise. For example, they provide that no exercise may be made if, after giving effect to the exercise, an Investor would own over 9.99% of the Company's outstanding shares of common stock. In addition, the Warrants provide that no exercise may be made if it would cause the Company to be in breach of its obligations under the rules and regulations of the Nasdaq Global Market, unless the Company obtains stockholder approval for such issuances as required by such rules and regulations.

The Warrants granted to the Investor on February 25, 2008 and conversion feature in the above Notes are not considered derivative instruments that need to be bifurcated from the original security since the Warrants and the conversion price of the Notes have a floor of \$5.00, which means the Company can determine the maximum shares that could be issued upon conversion. The Company determined the fair value of the detachable warrants issued in connection with the Notes to be \$1,269,442, using the Black-Scholes option pricing model and the following assumptions: expected life of 1 year, a risk free interest rate of 2.10%, a dividend yield of 0% and volatility of 70%. In addition, the Company determined the value of the beneficial conversion feature to be \$2,770,442. The combined total discount for the Notes is \$4,039,885 and is being amortized over the term of the Notes. For the three and six months ended June 30, 2010 and 2009, the Company amortized \$17,654 and \$34,114 and \$395,724 and \$462,072, respectively, of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations.

During the years ended December 31, 2009 and 2008, \$2,800,000 and \$15,200,000, respectively, of the Notes were converted into 560,000 and 1,520,000, respectively, shares of common stock.

Note 4 – Short-Term Loans

Short term loans at June 30, 2010 and December 31, 2009 are follows:

| | <u>June 30,</u> <u>2010</u> | <u>December 31,</u> <u>2009</u> |
|---|--------------------------------|------------------------------------|
| | | (audited) |
| Short term bank loan payable to Shanghai Pudong Development Bank. The loan accrues interest at 5.84%. The note was renewed in May 2010 and is due May 4, 2011. The loan is collateralized by buildings and land use | <u>\$ 4,419,000</u> | <u>\$ 4,401,000</u> |

Note 5 – Stockholders' Equity

Common Stock

On January 4, 2010, the Company approved grants of 760,000 shares of restricted stock to certain officers, directors and key employees. The restricted stock awards have vesting schedules ranging from 1 to 3 years. The value of the awards granted was \$3,838,000 which was calculated using the fair market value of the Company's stock price at the date of grant. This amount is being expensed over the vesting period as the restrictions lapse. The expense recognized during the three and six months ended June 30, 2010 was \$375,720 and \$751,440, respectively. The amount that has not been expensed is shown as deferred compensation as a contra-equity account in the accompanying consolidated balance sheet.

On April 23, 2010, the Company issued 150,000 shares of its common stock to Southridge for Southridge's surrender of its existing warrant to purchase 400,000 shares of the Company's common stock. The warrant was subsequently cancelled by the Company. The warrant and common stock issued to Southridge were related to equity financing; therefore the charge related to the value of these equity instruments was recorded to additional paid-in capital.

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Equity Credit Agreement

On September 9, 2009, the Company entered into an Equity Credit Agreement with Southridge Partners II, LP (“Southridge”), which was amended and restated as of November 9, 2009, providing for, among other things, the issuance of shares of its common stock at any time and from time to time during the next two years for gross proceeds of up to \$50,000,000. In connection with the closing of the transaction, the Company also issued Southridge a warrant to purchase an additional 400,000 shares of its common stock during a five year period at an exercise price of \$5.75 per share. The fair value of the warrant was charged to additional paid in capital as it was issued in connection with an equity instrument. As described above, Southridge surrendered the warrant to the Company in April 2010.

Note 6 – Employee Common Welfare

The total expense for the employee common welfare was \$161,253 and \$215,199 for the six months ended June 30, 2010 and 2009, respectively. The Company recorded welfare payable of \$0 and \$1,940 at June 30, 2010 and December 31, 2009, respectively, which is included in tax and welfare payable in the accompanying consolidated balance sheet.

Note 7 – Statutory Common Welfare Fund

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years’ losses, if any;
- ii. Allocations to the “Statutory surplus reserve” of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company’s registered capital;
- iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company’s “Statutory common welfare fund”, which is established for the purpose of providing employee facilities and other collective benefits to the Company’s employees; and
- iv. Allocations to the discretionary surplus reserve, if approved in the stockholders’ general meeting.

Pursuant to the new Corporate Law effective on January 1, 2006, there is now only one "Statutory surplus reserve" requirement. The reserve is 10% of income after tax, not to exceed 50% of registered capital.

The Company appropriated \$522,882 and \$602,388 as reserve for the statutory surplus reserve and welfare fund for the six months ended June 30, 2010 and 2009, respectively.

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Note 8 – Stock Options and Warrants

Stock Options

Following is a summary of stock option activity:

| | Options outstanding | Weighted Average Exercise Price | Weighted average remaining contractual life | Aggregate Intrinsic Value |
|--------------------------------|------------------------|--|--|---------------------------------|
| Outstanding, December 31, 2009 | 210,000 | \$ 8.42 | 3.74 | \$ 51,000 |
| Granted | - | - | | |
| Forfeited | - | - | | |
| Exercised | - | - | | |
| Outstanding, June 30, 2010 | <u>210,000</u> | \$ 8.42 | 3.24 | \$ - |
| Exercisable, June 30, 2010 | 53,332 | \$ 9.20 | 3.04 | \$ - |

The exercise price for options outstanding at June 30, 2010 is as follows:

| Number of Options | Exercise Price |
|----------------------|-------------------|
| 30,000 | \$ 3.30 |
| 20,000 | \$ 8.85 |
| <u>160,000</u> | <u>\$ 9.32</u> |
| <u>210,000</u> | |

Warrants

Following is a summary of the warrant activity:

| | Warrants outstanding | Weighted Average Exercise Price | Weighted average remaining contractual life | Aggregate Intrinsic Value |
|--------------------------------|-------------------------|--|---|---------------------------------|
| Outstanding, December 31, 2009 | 2,607,635 | \$ 4.72 | 3.61 | \$ 2,142,218 |
| Granted | - | - | | |
| Forfeited/canceled | (403,200) | \$ 5.74 | | |
| Exercised | - | - | | |
| Outstanding, June 30, 2010 | <u>2,204,435</u> | \$ 4.53 | 2.92 | \$ 247,250 |
| Exercisable, June 30, 2010 | 2,204,435 | \$ 4.53 | 2.92 | \$ 247,250 |

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The exercise price for warrants outstanding at June 30, 2010 is as follows:

| Number of Warrants | Exercise Price |
|-----------------------|-------------------|
| 575,000 | \$ 2.50 |
| 1,409,435 | \$ 4.50 |
| 220,000 | \$ 10.00 |
| 2,204,435 | |

Note 9 – Segment Information

The Company's predominant businesses are the research and development, manufacture, marketing, distribution, and sale of pre-mix, concentrates and complete feeds and feed additives primarily for use in China's domestic pork husbandry market and the raising, breeding, and selling of pigs. The Company operates in two segments: animal feed nutrition and hog production.

The Company's feed company in Shanghai is located in the Qingcun town, Fengxian district, Shanghai and sells its products to 658 customers, consisting of 433 distributors and 225 large scale pig farms. Its feed company in Guangxi is located in Coastal Industrial Park, Liangqin district, Nanning city, Guangxi Province and sells its products to 713 customers, consisting of 485 distributors and 228 large scale pig farms. Its feed company in Nanchang is located in Chang Bei District Industrial Park, in Nanchang, Jiangxi province and sells its products to 710 customers, consisting of 490 distributors and 220 large scale pig farms. The hog farms are engaged mainly in raising, breeding, and sale of pigs all over the country and are located in the PRC provinces of Jiangxi, Shanghai, Hainan, Guangxi and Fujian.

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The following tables summarize segment information for the three and six months ended June 30, 2010 and 2009:

| | <u>Three Months Ended June</u> <u>30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|--|----------------------|----------------------------------|----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenues from unrelated entities | | | | |
| Animal feed nutrition | \$ 26,369,201 | \$ 11,136,517 | \$ 50,658,950 | \$ 21,249,773 |
| Hog production | 11,292,754 | 27,391,253 | 39,862,072 | 50,707,271 |
| | <u>\$ 37,661,955</u> | <u>\$ 38,527,770</u> | <u>\$ 90,521,022</u> | <u>\$ 71,957,044</u> |
| Intersegment revenues | | | | |
| Animal feed nutrition | \$ 1,721,014 | \$ 3,775,765 | \$ 5,490,936 | \$ 6,446,171 |
| Hog production | 1,267,008 | 230,593 | 1,784,139 | 318,855 |
| | <u>\$ 2,988,022</u> | <u>\$ 4,006,358</u> | <u>\$ 7,275,075</u> | <u>\$ 6,765,026</u> |
| Total revenues | | | | |
| Animal feed nutrition | \$ 28,090,215 | \$ 14,912,282 | \$ 56,149,886 | \$ 27,695,944 |
| Hog production | 12,559,762 | 27,621,846 | 41,646,211 | 51,026,126 |
| Less Intersegment revenues | <u>(2,988,022)</u> | <u>(4,006,358)</u> | <u>(7,275,075)</u> | <u>(6,765,026)</u> |
| | <u>\$ 37,661,955</u> | <u>\$ 38,527,770</u> | <u>\$ 90,521,022</u> | <u>\$ 71,957,044</u> |
| Gross profit | | | | |
| Animal feed nutrition | \$ 4,768,663 | \$ 3,102,415 | \$ 9,232,737 | \$ 5,687,358 |
| Hog production | (2,209,385) | 2,119,244 | (354,177) | 5,337,706 |
| Holding company | - | - | - | - |
| | <u>\$ 2,559,278</u> | <u>\$ 5,221,659</u> | <u>\$ 8,878,560</u> | <u>\$ 11,025,064</u> |
| Income (loss) from operations | | | | |
| Animal feed nutrition | \$ 2,962,810 | \$ 1,738,516 | \$ 5,630,163 | \$ 3,126,147 |
| Hog production | (3,921,133) | 1,026,823 | (3,695,323) | 3,186,452 |
| Holding company | <u>(974,412)</u> | <u>(503,542)</u> | <u>(2,243,301)</u> | <u>(868,436)</u> |
| | <u>\$ (1,932,735)</u> | <u>\$ 2,261,797</u> | <u>\$ (308,461)</u> | <u>\$ 5,444,163</u> |
| Interest income | | | | |
| Animal feed nutrition | \$ 22,738 | \$ 17,111 | \$ 56,181 | \$ 48,859 |
| Hog production | 10,680 | 5,277 | 17,270 | 10,313 |
| Holding company | <u>4,644</u> | <u>30,166</u> | <u>12,622</u> | <u>53,944</u> |
| | <u>\$ 38,062</u> | <u>\$ 52,554</u> | <u>\$ 86,073</u> | <u>\$ 113,116</u> |

Interest and financing costs

| | | | | |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| Animal feed nutrition | \$ 97,079 | \$ 15,359 | \$ 179,611 | \$ 15,359 |
| Hog production | - | 7,145 | - | 7,145 |
| Holding company | <u>42,851</u> | <u>602,010</u> | <u>85,230</u> | <u>754,924</u> |
| | <u>\$ 139,930</u> | <u>\$ 624,514</u> | <u>\$ 264,841</u> | <u>\$ 777,428</u> |

Income tax expense

| | | | | |
|-----------------------|-------------------|-------------------|---------------------|-------------------|
| Animal feed nutrition | \$ 641,139 | \$ 285,958 | \$ 1,094,719 | \$ 501,508 |
| Hog production | - | - | - | - |
| Holding Company | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 641,139</u> | <u>\$ 285,958</u> | <u>\$ 1,094,719</u> | <u>\$ 501,508</u> |

Net income (loss)

| | | | | |
|-----------------------|-----------------------|---------------------|-----------------------|---------------------|
| Animal feed nutrition | \$ 2,264,097 | \$ 1,450,299 | \$ 4,437,740 | \$ 2,932,699 |
| Hog production | (4,206,230) | 844,788 | (4,009,165) | 2,875,117 |
| Holding company | <u>(1,012,619)</u> | <u>(1,068,835)</u> | <u>(2,315,909)</u> | <u>(1,562,724)</u> |
| | <u>\$ (2,954,752)</u> | <u>\$ 1,226,252</u> | <u>\$ (1,887,334)</u> | <u>\$ 4,245,092</u> |

Provision for depreciation

| | | | | |
|-----------------------|-------------------|-------------------|---------------------|---------------------|
| Animal feed nutrition | \$ 112,394 | \$ 132,798 | \$ 219,436 | \$ 169,059 |
| Hog production | <u>651,640</u> | <u>539,455</u> | <u>1,356,497</u> | <u>1,113,900</u> |
| | <u>\$ 764,034</u> | <u>\$ 672,253</u> | <u>\$ 1,575,933</u> | <u>\$ 1,282,959</u> |

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| | As of | As of |
|--------------------------|-----------------------|-----------------------|
| | June 30, | December |
| | 2010 | 31 , |
| | <u>2010</u> | <u>2009</u> |
| Total assets | | |
| Animal feed nutrition | \$ 39,715,595 | \$ 38,142,821 |
| Hog production | 115,296,223 | 110,718,199 |
| Holding company | <u>7,840,061</u> | <u>14,087,000</u> |
| | <u>\$ 162,851,879</u> | <u>\$ 162,948,020</u> |
| Intangible assets | | |
| Animal feed nutrition | \$ 3,357,120 | \$ 3,419,141 |
| Hog production | 40,586,966 | 40,389,358 |
| Holding company | <u>-</u> | <u>-</u> |
| | <u>\$ 43,944,086</u> | <u>\$ 43,808,499</u> |

Note 10 – Commitments

At June 30, 2010, the Company had commitments to expend approximately \$1,254,000 for construction in process.

Note 11 – Acquisition and Dispositions

During the six months ended June 30, 2010, the Company purchased the non-controlling interest of 10% and 20% in two hog farms for \$230,063 and \$176,040, respectively. As a result of the purchase of the non-controlling interest, the excess of the purchase price over the carrying value of the non-controlling interest of \$219,158 and \$146,144, respectively, was recorded against additional paid in capital.

Note 12 – Subsequent Events

During July and August 2010, the Company issued 4,993,496 shares of its common stock to Southridge pursuant to the Equity Credit Agreement. The Company received aggregate gross proceeds of \$13,000,000 which will be used for general corporate purposes, including to finance a portion of the purchase price for the potential acquisition of M2P2, LLC. Following these transactions, the Company may from time to time sell to Southridge shares of its common stock for aggregate proceeds of \$37,000,000.