

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2011 AND DECEMBER 31, 2010

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

	2011	2010
	(unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,199,596	\$ 12,399,916
Accounts receivable, net of allowance for doubtful accounts of \$1,930,100 and \$707,968	28,672,187	21,841,442
Advances to suppliers	517,064	1,676,593
Inventory	85,741,183	81,379,649
Prepaid expenses and other current assets	2,454,312	2,242,807
Deferred tax asset	83,685	83,685
Assets of discontinued operations	3,870,799	6,293,524
Total current assets	130,538,826	125,917,616
PROPERTY AND EQUIPMENT, net	67,101,166	63,631,224
INTANGIBLE ASSETS, net	5,678,896	5,783,102
GOODWILL	22,510,697	22,365,414
DEFERRED TAX ASSET	1,925,663	2,329,548
OTHER ASSETS	2,738,813	3,467,758
TOTAL ASSETS	\$ 230,494,061	\$ 223,494,662
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Short-term loan	\$ 4,581,000	\$ 4,551,000
Accounts payable	8,737,927	8,783,569
Other payables	2,554,637	3,736,931
Unearned revenue	92,111	489,241
Accrued expenses	8,154,401	6,142,747
Accrued payroll	941,958	1,163,504
Tax and welfare payable	892,298	1,893,727
Interest payable	192,429	121,392
Current portion of long-term debt	1,710,350	1,703,658
Convertible notes, net of discount of \$10,864	-	989,136
Liabilities of discontinued operations	1,402,237	1,595,805
Total current liabilities	29,259,348	31,170,710
ACQUISITION NOTE PAYABLE	9,621,434	9,621,434
LINE OF CREDIT	44,775,792	42,231,176
LONG-TERM DEBT	14,286,195	15,024,666
TOTAL LIABILITIES	97,942,769	98,047,986
COMMITMENTS AND CONTINGENCIES (Note 11)	-	-
EQUITY:		
AgFeed stockholders' equity:		
Common stock, \$0.001 per share; 75,000,000 shares authorized; 56,189,050 issued and	56,190	51,758

55,802,355 outstanding at March 31, 2011 51,756,907 issued and 51,370,212 outstanding at December 31, 2010		
Additional paid-in capital	133,724,749	125,788,151
Accumulated other comprehensive income	8,897,086	8,120,628
Statutory reserve	5,667,043	5,621,937
Treasury stock (386,695 shares)	(1,858,942)	(1,858,942)
Accumulated deficit	(14,026,159)	(12,430,229)
Total AgFeed stockholders' equity	<u>132,459,967</u>	<u>125,293,303</u>
Noncontrolling interest	91,325	153,373
Total equity	<u>132,551,292</u>	<u>125,446,676</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 230,494,061</u></u>	<u><u>\$ 223,494,662</u></u>

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)
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

	<u>2011</u> (unaudited)	<u>2010</u> (unaudited)
Revenues	\$ 92,987,199	\$ 46,489,856
Cost of goods sold	<u>85,107,097</u>	<u>40,617,819</u>
Gross profit	7,880,102	5,872,037
Operating expenses		
Selling expenses	986,663	1,018,164
General and administrative expenses	<u>6,375,431</u>	<u>3,443,171</u>
Total operating expenses	7,362,094	4,461,335
Income from operations	<u>518,008</u>	<u>1,410,702</u>
Non-operating income (expense):		
Other income (expense)	(2,716)	75,158
Interest income	14,722	47,333
Interest and financing costs	(914,959)	(124,911)
Foreign currency transaction loss	(10,128)	13,803
Total non-operating income (expense)	<u>(913,081)</u>	<u>11,383</u>
Income (loss) from operations before income taxes	(395,073)	1,422,085
Income tax expense	538,739	453,580
Loss from continuing operations	<u>(933,812)</u>	<u>968,505</u>
Discontinued operations:		
Income (loss) from discontinued operations (including loss on disposal of \$295,280 in 2011)	(681,045)	42,719
Net loss	<u>(1,614,857)</u>	<u>1,011,224</u>
Less: Net income (loss) attributed to noncontrolling interest	(64,033)	(56,194)
Net income attributed to AgFeed	<u>\$ (1,550,824)</u>	<u>\$ 1,067,418</u>
Comprehensive income (loss)		
Net income (loss)	\$ (1,614,857)	\$ 1,011,224
Foreign currency translation gain	778,443	764
Comprehensive income (loss)	<u>\$ (836,414)</u>	<u>\$ 1,011,988</u>
Weighted average shares outstanding :		
Basic	<u>53,388,412</u>	<u>44,869,485</u>
Diluted	<u>53,388,412</u>	<u>45,213,024</u>
Basic earnings (loss) per share attributed to AgFeed common stockholders:		
Continuing operations	\$ (0.02)	\$ 0.02
Discontinued operations	<u>(0.01)</u>	<u>\$ 0.00</u>

	\$ (0.03)	\$ 0.02
	<u> </u>	<u> </u>
Diluted earnings (loss) per share attributed to AgFeed common stockholders:		
Continuing operations	\$ (0.02)	\$ 0.02
Discontinued operations	(0.01)	\$ 0.00
	<u> </u>	<u> </u>
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The accompanying notes are an integral part of these consolidated financial statements.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

	<u>2011</u> (unaudited)	<u>2010</u> (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,614,857)	\$ 1,011,224
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	1,498,562	811,899
Amortization of intangible assets	111,629	23,191
Loss on sale of assets	543,552	-
Stock based compensation	7,235	75,281
Issuance of common stock for services	433,795	375,720
Amortization of debt issuance costs	4,617	7,419
Amortization of discount on convertible debt	10,864	17,460
Change in working capital components		
Accounts receivable	(6,647,112)	(8,599,242)
Other receivables	-	(2,466,242)
Inventory	(1,987,357)	(1,813,472)
Advances to suppliers	1,194,764	360,605
Prepaid expenses	511,397	350,014
Deferred taxes	403,885	-
Other assets	1,118,963	(73,782)
Accounts payable	(246,537)	3,906,822
Other payables	(1,431,148)	2,142,963
Unearned revenue	(461,805)	(166,837)
Accrued expenses	2,010,388	(12,304)
Accrued payroll	(225,979)	(326,087)
Tax and welfare payable	(1,001,190)	213,894
Interest payable	71,037	17,500
Net cash provided by (used in) operating activities	<u>(5,695,297)</u>	<u>(4,143,974)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,208,508)	(4,282,474)
Purchase of intangible assets	-	(125,514)
Proceeds from sale of assets	315,114	-
Net cash used in investing activities	<u>(5,893,394)</u>	<u>(4,407,988)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the sale of common stock	7,500,000	-
Borrowings under line of credit facility, net	2,544,616	-
Payment on convertible notes	(1,000,000)	-
Payment on note payable	(731,779)	-
Purchase of noncontrolling interest in majority owed hog farms	-	(406,103)
Net cash provided by (used in) financing activities	<u>8,312,837</u>	<u>(406,103)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>75,534</u>	<u>(2,062)</u>
NET DECREASE IN CASH & CASH EQUIVALENTS	(3,200,320)	(8,960,127)
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	12,399,916	37,580,154
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ <u>9,199,596</u>	\$ <u>28,620,027</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid, net of amounts capitalized	\$ 993,985	\$ 64,969
Income taxes paid	\$ 1,136,283	\$ 210,860

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(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, 2010. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011.

Organization and Lines of Business

AgFeed Industries, Inc. (the “Company” or “AgFeed”) was incorporated in the State of Nevada on March 30, 2005. The Company is engaged in the animal nutrition business and commercial hog production business in the United States and China through its operating subsidiaries.

The Company’s animal nutrition business consists of the manufacture, marketing and sale of premix, concentrate and complete feed for use in the Chinese animal husbandry markets almost exclusively for hog production. Premix is an animal feed additive that is used in commercial animal production worldwide. The Company has been almost exclusively in the premix feed business since 1995 and now operates five premix, concentrate and complete feed manufacturing facilities located in the cities of Nanchang, Shandong, Shanghai, Nanning, and Hainan. The Company is expanding its concentrate and complete feed lines to meet the growing demand of commercial producers as they modernize their production technology and focus on the requirements of the food safety laws.

The Company entered the hog breeding and production business in China in November 2007. In this business, the Company mainly produces hogs for processing and sell breeding stock. The Company currently has two breeder farms and 21 meat hog producing farms in the Jiangxi, Shanghai, Hainan, Guangxi and Fujian provinces. The Company has almost finished construction of its western style hog farm in the Gaungxi province and has just begun construction of another western style hog farm in the Jiangxi province.

The Company entered the hog breeding and production business in the United States in September 2010 with the acquisition of M2 P2, LLC (“M2P2”). M2P2 operates hog farms and facilities in Colorado, Oklahoma, North Carolina and Iowa.

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 generally accepted in the United States (“US GAAP”). The Company’s Chinese subsidiaries’ functional currency is the Chinese Yuan Renminbi (“RMB”) and the Company’s United States subsidiaries’ functional currency is the United States Dollar (“USD”). The accompanying consolidated financial statements have been translated and presented in USD.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
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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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on 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

Accounts receivable are carried at original invoice less an estimate for doubtful accounts. 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. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

The Company's accounts receivable and reserves for doubtful accounts are substantially representative of its credit dealings with animal nutrition customers. The Company ages its receivables into traditional 30-day buckets and monitors the customers and balances on a regular basis. Generally the Company uses a formula-based analysis to more broadly assign collection risk to its aging groups primarily over 90 days past due, subject to specific customer review. This formula-based approach applies a declining percentage of collectability to each bucket-aging category at least 90 days past due as the past due days increase. For the current quarter, however, the Company placed greater reliance on individual customer assessment and then applied an overall factor of collection as its believes the Company is experiencing a new set of market dynamics exacerbated by the reorganization of its animal feed nutrition segment, cash constraints of its long-standing customers related to increasing feed raw material costs and herd expansion initiatives. The below table analyzes the change in the Company's accounts receivable reserve from December 31, 2010 to March 31, 2011:

Balance, December 31, 2010	\$ 707,968
Additions	1,221,952
Collections of reserve accounts	-
Write-offs of uncollectible accounts	-
Balance, March 31, 2011	<u>\$ 1,930,100</u>

Advances to Suppliers

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

Inventory

Inventory is stated at the lower of cost, as determined primarily by the average cost 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 March 31, 2011 and December 31, 2010:

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Raw material	\$ 11,881,015	\$ 11,691,635

Work in process	-	160,007
Finished goods – feed	379,273	810,786
Hogs	73,480,895	68,717,221
Total	<u>\$ 85,741,183</u>	<u>\$ 81,379,649</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:

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Office equipment	1 to 5 years
Operating equipment	1 to 10 years
Vehicles	5 years
Swine for reproduction	2 to 3.5 years
Buildings	20 to 40 years

The following are the details of property and equipment at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Office equipment	\$ 767,480	\$ 983,992
Operating equipment	14,259,655	13,945,244
Vehicles	846,445	994,686
Swine for reproduction	15,361,176	10,830,812
Land	752,500	752,500
Buildings	26,536,641	29,165,246
Construction-in-process	14,205,575	11,888,319
Total	72,729,472	68,560,799
Less accumulated depreciation	(5,628,306)	(4,929,575)
	<u>\$ 67,101,166</u>	<u>\$ 63,631,224</u>

Construction-in-process consists of amounts expended for construction. Once 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, including intangible assets. ASC Topic 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. The Company determined that based on the criteria above, an impairment of certain assets was necessary and accordingly recorded an impairment of approximately \$9.0 million for the year ended December 31, 2010. No impairment was required to be recorded during the three months ended March 31, 2011.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
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Intangible Assets

The following are the details of intangible assets at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Right to use land	\$ 786,429	\$ 781,278
Customer relationships	4,837,668	4,835,195
Computer software	485,387	478,988
Total	6,109,484	6,095,461
Less Accumulated amortization	(430,588)	(312,359)
Intangibles, net	<u>\$ 5,678,896</u>	<u>\$ 5,783,102</u>

Per the People's Republic of China's ("PRC") governmental regulations, the PRC Government owns all Chinese land. Generally, the Company leases, through its PRC subsidiaries, land pursuant to land use contracts with the PRC government for periods of 30 to 50 years. Accordingly, the right to use land for these companies is amortized over 50 years or the lease term, if shorter. Customer relationships is amortized over five to twelve years 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.

The Company follows ASC Topic 350 in accounting for intangible assets, which requires impairment losses to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by the assets are less than the assets' carrying amounts. There were no impairment losses recorded on intangible assets for the three months ended March 31, 2011 and 2010.

Goodwill

Goodwill represents the excess of purchase price over the underlying net assets of businesses acquired. Under accounting requirements, goodwill is not amortized but is subject to annual impairment tests. As of December 31, 2009 and 2008, the Company performed the required impairment review which resulted in no impairment adjustments.

The extreme operating conditions that the Company experienced during 2010 lead to a full review of its established Chinese production system (the farms acquired during 2007 and 2008). This review has resulted in a change in the management of this farm system and an assessment that while the system can be operated profitably it cannot sustain a high enough level of profitability to support the original acquisition values and resulting goodwill. In connection with the Company's annual review for the year ended December 31, 2010, management determined that a write down of goodwill of \$21,612,398 was necessary. The impairment was determined based on the fair value of the reporting units, which was estimated based on a discounted cash flow valuation model and the projected future cash flows of the underlying businesses. Management determined that there were no triggering events at March 31, 2011 and deemed no additional impairment was necessary.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
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Summary of changes in goodwill by reporting segments is as follows:

	<u>Animal</u> <u>Nutrition</u>	<u>Hog Production</u>		<u>Total</u>
		<u>China</u>	<u>U.S. (M2P2)</u>	
Balance, December 31, 2010	\$ 2,437,135	\$ 19,602,279	\$ 326,000	\$ 22,365,414
Foreign currency adjustment	16,066	129,217	-	145,283
Balance, March 31, 2011	<u>\$ 2,453,201</u>	<u>\$ 19,731,496</u>	<u>\$ 326,000</u>	<u>\$ 22,510,697</u>

Revenue Recognition

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.

Major Customer

The Company has one major customer that during the three months ended March 31, 2011 accounted for approximately \$56.8 million in revenues or 61.1% of total Company revenues. No one customer accounted for more than 10% of the Company's revenue for the three months ended March 31, 2010.

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 months ended March 31, 2011 and 2010 were not significant.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three months ended March 31, 2011 and 2010 were not significant.

Derivative Instruments

Under accounting requirements, all derivative instruments are recognized on the balance sheet at fair value. The accounting for changes in the fair value (gains or losses) depends on the nature of the derivative and hedging relationship.

M2P2 periodically utilizes derivative instruments in its risk management and commodity hedging activities. Derivative instruments primarily include futures and forward contracts which may be utilized to hedge price risk related to a portion of the Company's grain purchases. Although the derivatives are considered an economic hedge, they do not qualify for the defined hedge accounting and, accordingly, changes in fair value of the derivatives are recognized in net income. Gains or losses related to grain derivatives are classified in cost of goods sold on the consolidated statement of operations.

The Company's open derivative positions have been recorded at fair value (marked to market), resulting in a derivative asset and liability of approximately \$1,126,000 and \$1,053,000, and \$1,094,000 and \$980,000 at March 31, 2011 and December 31, 2010, respectively. Derivative assets are included in other current assets and derivative liabilities are included in accrued expenses on the consolidated balance sheet. Realized and unrealized derivative losses included in net loss during the three months ended March 31, 2011 totaled approximately \$583,000 and \$371,000, respectively.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
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Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation." ASC Topic 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.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC Topic 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.

Foreign Currency Translation

The accounts of the Company's Chinese subsidiaries are maintained in RMB and the accounts of the U.S. parent company and U.S. subsidiaries 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 ASC Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet dates, 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.

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 accumulated 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. At March 31, 2011, the Company had a total of 2,169,435 common stock equivalents outstanding, including options, warrants and convertible debentures. All common stock equivalents for the three months ended March 31, 2011 are anti-dilutive due to the net loss incurred.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations for the three months ended March 31, 2011 and 2010:

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
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(unaudited)

	2011		2010	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	53,388,412	\$ (0.02)	44,869,485	\$ 0.02
Effect of dilutive stock options and warrants	-	-	343,539	-
Diluted earnings per share	<u>53,388,412</u>	<u>\$ (0.02)</u>	<u>45,213,024</u>	<u>\$ 0.02</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 Reporting,” 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 four reportable segments (See Note 10).

Fair Value of Financial Instruments

For certain of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, 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. Derivative financial instruments are recorded at fair value based on quoted market prices.

Fair Value Measurements

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 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.

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At March 31, 2011 the Company's derivative instruments were reported at fair value using Level 1 and Level 2 inputs, as follows:

- \$980,000 derivative liability consisting of exchange traded commodity futures contracts valued using Level 1 inputs. The fair value measurements are determined by quoted market prices from the Chicago Board of Trade (CBOT).
- \$1,094,000 derivative asset consisting of fixed price forward purchase contracts valued using Level 2 inputs. The fair value measurements are based on observable data for similar assets as well as quoted market prices from the CBOT.

At December 31, 2010, the Company had approximately \$19.6 million of goodwill which was measured at fair value on a non-recurring basis, and was valued using Level 3 inputs.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net income or stockholders' equity.

Note 3 – Short-Term Loan and Subsequent Event

Short term loan at March 31, 2011 and December 31, 2010 is as follows:

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
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 was paid off in full subsequent to March 31, 2011). The loan is collateralized by buildings and land use rights.	<u>\$ 4,581,000</u>	<u>\$ 4,551,000</u>

Note 4 – Acquisition Note Payable

In connection with the acquisition of M2P2, the Company issued a promissory note payable in the amount of \$9,621,434. The note bears interest at a rate of 8.0% per year, with interest payable quarterly in cash on March 31, June 30, September 30 and December 31 of each year, beginning on December 31, 2010. The Company will make interest only payments until June 30, 2012 and thereafter it will make amortizing principal and interest payments with the last payment due on September 30, 2020. The Company granted AF Sellco, LLC a perfected first-priority lien on, and security interest in, all of the outstanding equity interests of M2P2 as collateral security for the Company's obligations on the promissory notes.

Note 5 – Line of Credit

The Company's wholly-owned subsidiary, M2P2 has a \$65 million senior revolving loan facility that expires on June 1, 2012. The first \$25 million borrowed under the facility bears interest at 3.95%; and the remaining amount borrowed under the facility bears interest at the 1-month LIBOR plus 3.00% (3.25% at March 31, 2011). \$300,000 of the facility is being used for a letter of credit bearing a variable rate with the State of Colorado and is not accessible for borrowing until the letter of credit is released. Borrowings are limited to the lesser of \$64.7 million or a defined borrowing base (approximately \$60.2 million at March 31, 2011) based primarily on inventory and receivables. This facility is collateralized by substantially all of the assets of M2P2 and has various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

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Note 6 – Long-Term Debt

Long- term loans at March 31, 2011 and December 31, 2010 are as follows:

	2011	2010
Note payable, bearing interest at the prime rate plus 2% (5.25% at March 31, 2011) and payable on November 25, 2018. The note is secured by the M2P2's 100% interest in Heritage Farms LLC and is subordinated to certain senior debt.	\$ 3,500,000	\$ 3,500,000
Senior term loan - \$6 million; bears interest at 5.0%; quarterly installments of \$250,000 plus interest with remaining balance is due April 1, 2013. (A)	5,250,000	5,750,000
Senior term loan - \$7.6 million; \$5.8 million of the loan bears interest at 5.0% and the \$1.4 million remaining balance bears interest at the 3-month LIBOR plus 1.75% (2.05% at March 31, 2011); payments are due in monthly installments of approximately \$85,000. The remaining balance is due March 1, 2020. (A)	7,246,545	7,478,324
	15,996,545	16,728,324
Less current portion	(1,710,350)	(1,703,658)
	\$ 14,286,195	\$ 15,024,666

- (A) These borrowings are collateralized by substantially all of the assets of M2P2 and have various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

Note 7 – Stockholders' Equity and Subsequent Event

Common Stock

The Company has granted a total of 1,800,000 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 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 months ended March 31, 2011 and 2010 was \$433,795 and \$375,720, respectively. At March 31, 2011 there is \$4,118,736 of compensation expense that will be amortized over the remaining vesting periods.

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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”), 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. During the year ended December 31, 2010, the Company issued 150,000 shares of its common stock to Southridge for the surrender of the existing warrant to purchase 400,000 shares of the Company’s common stock. The warrant was subsequently canceled by the Company. During the quarter ended March 31, 2011, the Company issued 3,412,143 shares of its common stock for \$7,500,000 in connection with this Equity Credit Agreement. Subsequent to March 31, 2011, the Company issued 2,184,707 shares of its common stock for \$3,300,000 in connection with this Equity Credit Agreement.

Note 8 – 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 percent of income after tax, not to exceed 50 percent of registered capital.

The Company appropriated \$936,822, \$1,449,061 and \$2,483,829 as reserve for the statutory surplus reserve and welfare fund for the years ended December 31, 2010, 2009 and 2008, respectively.

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Note 9 – 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, 2010	185,000	\$ 8.96	2.71	\$ -
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, March 31, 2011	<u>185,000</u>	\$ 8.96	2.45	\$ -
Exercisable, March 31, 2011	175,000	\$ 8.94	2.45	\$ -

The exercise price for options outstanding at March 31, 2011 is as follows:

Number of Options	Exercise Price
10,000	\$ 3.30
15,000	\$ 8.85
160,000	\$ 9.32
<u>185,000</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, 2010	2,204,435	\$ 4.03	2.42	\$ 253,000
Granted	-	-		
Forfeited/canceled	(220,000)	\$ 5.00		
Exercised	-	-		
Outstanding, March 31, 2011	<u>1,984,435</u>	\$ 3.92	2.43	\$ -
Exercisable, March 31, 2011	1,984,435	\$ 3.92	2.43	\$ -

The exercise price for warrants outstanding at March 31, 2011 is as follows:

Number of Warrants	Exercise Price
575,000	\$ 2.50
<u>1,409,435</u>	\$ 4.50

1,984,435

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Note 10 – 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 four segments: (1) animal feed nutrition, (2) hog production – United States, (3) hog production – China and (4) western style hog farms in China. Certain of the reportable segments include geographic units which are aggregated due to having substantially similar products, production processes, distribution systems, and economic characteristics. The Company does not allocate the holding company income and expenses to the other four segments, but rather presents them as part of the segment disclosures so that all the captions reconcile to the financial statements. The Company added the US hog production (as a result of the acquisition of M2P2) and western style hog farms segments in 2010.

The following tables summarize segment information (continuing operations) for the three ended March 31, 2011 and 2010:

	Three Months Ended March	
	31,	
	2011	2010
Revenues from unrelated entities		
Animal feed nutrition	\$ 24,208,671	\$ 24,289,749
Hog production - United States	57,884,424	-
Hog production - China	10,894,104	22,200,107
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 92,987,199</u>	<u>\$ 46,489,856</u>
Intersegment revenues		
Animal feed nutrition	\$ 4,023,299	\$ 3,769,922
Hog production - United States	-	-
Hog production - China	557,151	517,131
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 4,580,450</u>	<u>\$ 4,287,053</u>
Total revenues		
Animal feed nutrition	\$ 28,231,970	\$ 28,059,671
Hog production - United States	57,884,424	-
Hog production - China	11,451,255	22,717,238
Western style hog farms	-	-
Holding Company	-	-
Less Intersegment revenues	(4,580,450)	(4,287,053)
	<u>\$ 92,987,199</u>	<u>\$ 46,489,856</u>
Gross profit		
Animal feed nutrition	\$ 2,426,043	\$ 4,464,074
Hog production - United States	4,384,568	-
Hog production - China	1,069,491	1,407,963
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 7,880,102</u>	<u>\$ 5,872,037</u>

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Income (loss) from operations		
Animal feed nutrition	\$ (835,496)	\$ 2,667,353
Hog production - United States	3,645,443	
Hog production - China	(139,246)	12,238
Western style hog farms	(298,394)	-
Holding Company	(1,854,299)	(1,268,889)
	<u>\$ 518,008</u>	<u>\$ 1,410,702</u>

Interest income		
Animal feed nutrition	\$ 2,999	\$ 33,443
Hog production - United States	-	-
Hog production - China	11,003	5,912
Western style hog farms	-	-
Holding Company	720	7,978
	<u>\$ 14,722</u>	<u>\$ 47,333</u>

Interest and financing costs		
Animal feed nutrition	\$ 70,704	\$ 82,532
Hog production - United States	624,678	-
Hog production - China	-	-
Western style hog farms	-	-
Holding Company	219,577	42,379
	<u>\$ 914,959</u>	<u>\$ 124,911</u>

Income tax expense (benefit)		
Animal feed nutrition	\$ 134,854	\$ 453,580
Hog production - United States	-	-
Hog production - China	-	-
Western style hog farms	-	-
Holding Company	403,885	-
	<u>\$ 538,739</u>	<u>\$ 453,580</u>

Net income (loss)		
Animal feed nutrition	\$ (1,028,763)	\$ 2,173,643
Hog production - United States	3,020,765	-
Hog production - China	(88,475)	154,346
Western style hog farms	(291,194)	-
Holding Company	(2,482,112)	(1,303,290)
Discontinued operations	(681,045)	42,719
	<u>\$ (1,550,824)</u>	<u>\$ 1,067,418</u>

Provision for depreciation		
Animal feed nutrition	\$ 241,731	\$ 107,042
Hog production - United States	491,349	-
Hog production - China	765,482	704,857
	<u>\$ 1,498,562</u>	<u>\$ 811,899</u>

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	As of March 31, 2011	As of December 31, 2010
Total assets		
Animal feed nutrition	\$ 40,355,909	\$ 42,783,939
Hog production - United States	100,372,669	94,369,142
Hog production - China	62,701,162	58,918,591
Western style hog farms	18,750,810	15,162,473
Holding Company	4,442,712	5,966,993
Discontinued operations	3,870,799	6,293,524
	<u>\$ 230,494,061</u>	<u>\$ 223,494,662</u>
Goodwill		
Animal feed nutrition	\$ 2,453,201	\$ 2,437,135
Hog production - United States	326,000	326,000
Hog production - China	19,731,496	19,602,279
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 22,510,697</u>	<u>\$ 22,365,414</u>
Long-term asset by geographic region		
United States	\$ 28,729,024	\$ 29,581,577
China	71,226,211	67,995,469
	<u>\$ 99,955,235</u>	<u>\$ 97,577,046</u>

Note 11 – Commitments

At March 31, 2011, the Company had commitments to expend approximately \$5,000,000 for construction in process and growing breeder hogs.

Note 12 – Discontinued Operations

During the three months ended March 31, 2011, the Company made the decision to dispose of all eight of our commercial hog farms in Jiangxi Province. All eight farms were included in our hog production – China segment. The closure of these farms is being accounted for as a discontinued operation. Operating results for hog farms in the Jiangxi Province have been presented in the accompanying consolidated statements of operations as discontinued operations for the three months ended March 31, 2011 and 2010. In addition, the assets and liabilities related to hog farms have been presented in the accompanying consolidated balance sheets as “Assets of discontinued operations” and “Liabilities of discontinued operations” at March 31, 2011 and December 31, 2010. Currently, the Company has executed settlement agreements for four of the eight hog farms.

The operating results for the eight hog farms have been presented in the accompanying consolidated statement of operations for the three months ended March 31, 2011 and 2010 as discontinued operations and are summarized below:

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	Three Months Ended March 31,	
	2011	2010
Revenues	\$ 2,130,409	\$ 6,369,211
Cost of goods sold	1,954,714	5,921,966
Gross profit	175,695	447,245
Operating expenses	629,119	332,790
Income (loss) from operations	(453,424)	114,455
Non-operating income (expense)	(227,621)	(71,736)
Income (loss) before taxes	(681,045)	42,719
Income tax expense	-	-
Net income (loss)	<u>\$ (681,045)</u>	<u>\$ 42,719</u>

The assets and liabilities of the discontinued operations at March 31, 2011 and December 31, 2010 are summarized below:

	March 31, 2011	December 31, 2010
Current assets	\$ 982,332	\$ 3,271,226
Long-term assets	2,888,467	3,022,298
	<u>\$ 3,870,799</u>	<u>\$ 6,293,524</u>
Current liabilities	<u>\$ 1,402,237</u>	<u>\$ 1,595,805</u>