

Migao Corporation

Interim Consolidated Financial Statements
First Quarter, Fiscal 2008
Ended December 31, 2007
(Unaudited)

Migao Corporation

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*For the three months period ended December 31, 2007 and 2006
(Unaudited)*

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Migao Corporation

Interim Consolidated Balance Sheets

(in Canadian dollars)

	December 31, 2007 (Unaudited)	September 30, 2007 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 21,144,355	\$ 17,452,952
Accounts receivable	7,801,712	6,372,852
Prepayments, deposits and other receivables (note 2)	24,521,202	10,613,761
Inventory (note 3)	21,847,755	19,101,408
Income taxes receivable	698,140	1,159,283
	76,013,163	54,700,256
Plant and equipment (note 5)	28,138,386	20,517,788
Construction in progress	1,555,526	5,971,902
Land use rights (note 6)	18,692,763	18,366,905
Future income tax assets, net	470,000	470,000
	\$ 124,869,838	\$ 100,026,851
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	\$ 4,667,850	\$ 4,578,150
Accounts payable and accrued liabilities (note 6)	13,640,548	9,957,740
Customer deposits	17,906,593	3,450,214
Due to related party (note 4)	23,738	45,387
Income taxes payable	190,800	-
	36,429,529	18,031,491
Shareholders' equity		
Share capital (note 8)	55,942,910	54,013,269
Contributed surplus (note 8)	8,317,201	8,550,992
Retained earnings (note 9)	29,626,716	26,527,076
Accumulated other comprehensive loss (note 10)	(5,446,518)	(7,095,977)
	88,440,309	81,995,360
Commitments (note 12)		
Subsequent events (note 15)		
	\$ 124,869,838	\$ 100,026,851

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

Approved on behalf of the Board of Directors

Signed by "Guocai Liu"

Director

Signed by "Michael Manley"

Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

	December 31, 2007	December 31, 2006
Revenues	\$ 24,679,919	\$ 21,731,394
Cost of goods sold (note 5)	18,840,466	17,057,739
Gross profit	5,839,453	4,673,655
Operating expenses		
Selling	1,174,514	979,745
General and administrative (note 5 and 6)	801,263	745,829
Stock-based compensation (note 8)	226,597	250,500
Professional and consulting	108,405	211,864
Finance costs	80,942	-
Pre-operating costs	17,468	-
	2,409,189	2,187,938
Income from operations	3,430,264	2,485,717
Other income	40,535	51,074
Income before income taxes	3,470,799	2,536,791
Provision for income taxes	371,159	127,828
Net income for the period	3,099,640	2,408,963
Retained earnings, beginning of period	26,527,076	15,320,755
Retained earnings, end of period	\$ 29,626,716	\$ 17,729,718
Income per share:		
Basic	\$ 0.08	\$ 0.08
Diluted	\$ 0.08	\$ 0.08
Weighted average number of common shares outstanding:		
Basic	37,253,629	29,152,896
Diluted	40,088,755	29,204,264

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

	December 31, 2007	December 31, 2006
Net income	\$ 3,099,640	\$ 2,408,963
Other comprehensive income, net of tax:		
Unrealized gains on translating financial statements of self-sustaining foreign operations	1,649,459	2,815,579
Comprehensive income	\$ 4,749,099	\$ 5,224,542

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

	December 31, 2007	December 31, 2006
Cash flows from operating activities		
Cash receipts from customers	\$ 37,707,439	\$ 14,581,259
Cash paid to suppliers and employees	(32,654,315)	(19,952,864)
Income taxes refund received	651,941	(105,426)
Income taxes paid	(371,158)	(105,426)
Interest paid	(80,942)	-
Interest received	18,953	28,868
	5,271,918	(5,448,163)
Cash flows from investing activities		
Purchase of plant and equipment	(1,041,750)	(3,259,029)
Construction in process	(1,986,230)	(1,319,254)
Payments for land use rights	-	(2,520,238)
	(3,027,980)	(7,098,521)
Cash flows from financing activities		
Proceeds from bank loan	-	3,516,900
Advances from (repayment to) related parties, net	(21,788)	334,604
Proceeds from exercise of underwriters' compensation options	-	152,330
Proceeds from exercise of warrants	1,298,253	-
Proceeds from exercise of stock options	171,000	-
	1,447,465	4,003,834
Increase in cash and cash equivalents	3,691,403	(8,542,850)
Cash and cash equivalents, beginning of period	17,452,952	16,315,835
Cash and cash equivalents, end of period	\$ 21,144,355	\$ 7,772,985
Cash and cash equivalents consist of:		
Cash on hand	\$ 20,843,227	\$ 4,492,364
Restricted cash	-	447,900
Term deposit	40,000	40,000
Bank notes	261,128	2,792,721
	\$ 21,144,355	\$ 7,772,985

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Migao Corporation (“the Company” or “Migao”), through its wholly owned Subsidiaries, is a manufacturer of specialty potash-based fertilizers, produced at its four operational facilities in the People’s Republic of China (“PRC”).

The Company

Migao holds 100% of the issued and outstanding capital of H.K. Migao Industry Limited (“HK Migao”), which in turn holds 100% of the issued and outstanding capital of Sichuan Migao Chemical Fertilizer Industry Co., Ltd. (“Sichuan Migao”), Guangdong Migao Chemical Co., Ltd. (“Guangdong Migao”), Liaoning Migao Chemical Co., Ltd. (“Liaoning Migao”), Migao Chemical Industry (Shanghai) Co., Ltd. (“Shanghai Migao”), Migao Chemical (Changchun) Co., Ltd. (“Changchun Migao”), and Migao Chemical (Tianjin) Co., Ltd. (“Tianjin Migao”) (collectively, the “Subsidiaries”).

Basis of Presentation

These unaudited interim consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its subsidiaries in the PRC. These interim financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recently audited financial statements of Migao. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the audited financial statements of Migao for the year ended September 30, 2007. Interim results are not necessarily indicative of the results expected for the fiscal year.

Adoption of New Accounting Policies

Effective October 1, 2007, the Company adopted the following new accounting standards.

Capital Management

The new standard 1535 – Capital Disclosures requires the Company to disclose information about the Company’s objectives, policies and processes for the management of its capital.

Financial Instruments – Disclosure and Presentation

The new standards 3862 – Financial Instruments – Disclosures and 3863 – Financial Instruments – Presentation require the disclosure of information with regards to the significance of financial instruments for the Company’s financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

2. Prepayments, Deposits, and Other Receivables

	December 31, 2007 (Unaudited)	September 30, 2007 (Audited)
Prepayments for raw materials	\$ 20,047,823	\$ 7,478,368
Prepayments for construction costs	702,715	903,810
Prepayment for transportation services	65,330	22,968
Deposits for the supply of utilities	272,893	150,965
VAT receivable	1,665,192	582,526
Other receivables and deposits	1,767,249	1,475,124
	\$ 24,521,202	\$ 10,613,761

3. Inventory

	December 31, 2007 (Unaudited)	September 30, 2007 (Audited)
Raw materials	\$ 14,194,851	\$ 13,930,933
Finished goods	5,479,985	1,075,089
Packing materials	150,220	89,818
Packing materials	2,022,699	4,005,568
	\$ 21,847,755	\$ 19,101,408

4. Related Party Balances

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

	December 31, 2007 (Unaudited)	September 30, 2007 (Audited)
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	\$ 23,738	\$ 45,387

LYEDC is controlled by an officer and director of Migao. The amounts are non-interest bearing and due on demand.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

5. Plant and Equipment

			December 31, 2007 (Unaudited)
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 15,655,141	\$ 812,805	\$ 14,842,336
Machinery and equipment	15,032,247	2,496,807	12,535,440
Vehicles	842,954	323,197	519,757
Office equipment	369,375	128,522	240,853
	\$ 31,899,717	\$ 3,761,331	\$ 28,138,386
			September 30, 2007 (Audited)
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 10,684,094	\$ 701,107	\$ 9,982,987
Machinery and equipment	11,984,245	2,180,777	9,803,468
Vehicles	793,580	288,699	504,881
Office equipment	337,561	111,109	226,452
	\$ 23,799,480	\$ 3,281,692	\$ 20,517,788

Amortization expense for the three month period ended December 31, 2007 was \$405,619 (December 31, 2006 - \$352,792) and is included in cost of goods sold and general and administrative expense.

6. Land Use Rights

	December 31, 2007 (Unaudited)	September 30, 2007 (Audited)
Land use rights	\$ 18,961,137	\$ 18,596,769
Less: accumulated amortization	268,374	229,864
	\$ 18,692,763	\$ 18,366,905

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

6. Land Use Rights - continued

As of December 31, 2007, the Company had sixteen land leases from the Chinese government with terms of fifty to seventy years.

Amortization expense for the three months period ended December 31, 2007 was \$33,210 (December 31, 2006 - \$2,193) and is included in general and administrative expense.

As of December 31, 2007, the Company had not obtained the land use right certificates for eight of the land leases and approximately \$4.8 million has been accrued as the balance due on the issuance of the certificates. It is common practice in the PRC that the land use right certificates are only issued when the government has serviced the land ready for construction.

Under the PRC law, land use rights can be revoked and the tenants can be forced to vacate at any time when re-development of the land is in the public interest.

7. Bank Indebtedness

At December 31, 2007, the Company has short-term bank loans outstanding totaling \$4,667,850 (RMB 34.5 million) (September 30, 2007 - \$4,578,150 or RMB 34.5 million) for working capital purposes. Subsequent to December 31, 2007 and as of February 11, 2008, there were no loan payments made on the outstanding bank loans.

<u>Amount</u>	<u>Due Date</u>	<u>Interest per annum</u>	<u>Secured by</u>
\$ 676,500	February 20, 2008	6.7095%	certain land use rights
\$ 676,500	April 16, 2008	6.7095%	certain land use rights
\$ 1,353,000	May 29, 2008	6.57%	certain land use rights
\$ 1,961,850	August 20, 2008	6.9084%	certain land use rights and buildings

Total carrying value of the security was \$ 4,154,515 (RMB 30,705,949). Total interest paid during the three months ended December 31, 2007 was \$78,518 (RMB 594,384) (December 31, 2006 - \$13,623 or RMB 94,015).

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

8. Share Capital

(a) **Authorized:**

Unlimited common shares without par value.

(b) **Issued common shares**

	Number of Shares	Amount
Balance – September 30, 2007	37,040,428	\$ 54,013,269
Exercise of warrants (i)	116,390	430,643
Fair value of warrants exercised (i)	-	76,817
Exercise of warrants (ii)	163,700	867,610
Fair value of warrants exercised (ii)	-	299,571
Exercise of stock options (iii)	60,000	171,000
Fair value of stock options exercised (iii)	-	84,000
Balance – December 31, 2007	37,380,518	\$ 55,942,910

(i) During the quarter ended December 31, 2007, 116,390 of the common share purchase warrants issued in relation to the private placement financing on May 18, 2006 were exercised at \$3.70 per share. The warrants were originally valued at \$0.66 per warrant using the following assumptions: dividend yield 0%; risk-free interest rate 4%; expected volatility 66%; and expected life of 2 years.

(ii) During the quarter ended December 31, 2007, 163,700 of the common share purchase warrants issued in relation to the private placement financing on February 22, 2007 were exercised at \$5.30 per share. The warrants were originally valued at \$1.83 per warrant using the following assumptions: dividend yield 0%; risk-free interest rate 4.11%; expected volatility 106%; and expected life of 2 years.

(iii) During the quarter ended December 31, 2007, 60,000 of the common share purchase options issued to the employees and directors of the Company were exercised at a price of \$2.85 per common share. The stock options were valued at \$1.40 per stock option using the following assumptions: dividend yield 0%; risk-free interest rate 4%; expected volatility 66%; and expected life of 5 years.

(c) **Contributed surplus**

	Amount
Balance – September 30, 2007	\$ 8,550,992
Stock-based compensation expense	226,597
Fair value of warrants exercised	(376,388)
Fair value of stock options exercised	(84,000)
Balance – December 31, 2007	\$ 8,317,201

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

8. Share Capital - continued

(d) Stock options

Under the Company's stock option plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The board of directors or such other persons designated by the board administers the plan and determines the vesting and terms of each award.

The Black-Scholes option valuation model, used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the year.

The following table summarizes the activity of the Company's stock option plan.

	Options	Weighted average exercise price
Outstanding – September 30, 2007	1,185,000	\$ 3.38
Granted during the quarter	-	-
Exercised during the period	(60,000)	2.85
Outstanding – December 31, 2007	1,125,000	\$ 3.41

The following table summarizes the weighted average information about the outstanding stock options.

As of December 31, 2007

<u>Exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Number exercisable</u>
\$2.85	1,005,000	3.38	228,333
\$7.69	60,000	4.50	NIL
\$8.46	60,000	4.50	NIL
\$3.41	1,125,000	3.50	228,333

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

8. Share Capital - continued

(e) Warrants

As at December 31, 2007, the following share purchase warrants were outstanding:

September 30, 2007	Issued	Exercised	Expired	December 31, 2007	Exercise Price	Expiry Date
2,337,333	-	116,390	-	2,220,943	\$ 3.70	May 18, 2008
2,825,450	-	163,700	-	2,661,750	\$ 5.30	February 22, 2009
5,162,783	-	280,090	-	4,882,693		

(f) Underwriters' Compensation Options

As at December 31, 2007, the following underwriters' compensation options were outstanding:

September 30, 2007 (outstanding and exercisable)	Issued	Exercised	Expired	December 31, 2007 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
5,862	-	-	-	5,862	\$ 2.85	0.38
225,938	-	-	-	225,938	\$ 4.15	1.15
231,800	-	-	-	231,800	\$ 4.12	1.13

9. Retained Earnings

Under the laws of the PRC, all wholly owned foreign investment entities have to set aside a portion of their net income each year as a general reserve fund until the fund has reached 50% of the entity's paid in capital. The Company is also required to set aside a portion of net income as an expansion fund. These funds are allowed to be distributed to shareholders at the time of winding up. The fund accumulated by the Company as at December 31, 2007 was \$2,795,624 (RMB 20,662,406; September 30, 2007 – \$2,283,903 or RMB 17,211,024).

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

10. Accumulated Other Comprehensive Loss

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – September 30, 2007	\$ (7,095,977)
Unrealized foreign currency translation gains during the quarter	1,649,459
Balance – December 31, 2007	\$ (5,446,518)

11. Segmented Information

The Company has one operating segment, being the production and sale of specialty potash-based fertilizer, along with their associated by-products. All of Company's assets and operations, with the exception of a corporate office in Toronto, Canada, are located in the PRC.

12. Commitments

Purchase commitments for raw materials and supplies in the amount of \$24.9 million (RMB 184 million) exist as of December 31, 2007. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of \$2.9 million (RMB 21 million) exist as of December 31, 2007. These contracts are entered into in the normal course of business.

13. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's shareholders' equity. The Company has a small amount of debt for working capital purposes and therefore net earnings generated from operations are mostly available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Board of Directors also reviews on a quarterly basis the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities if there is any. The Company does not have a defined share repurchase plan and buy and sell decisions are made depending on market prices and regulatory restrictions.

There were no changes in the Company's approach to capital management during the period. Except for as disclosed in Note 9, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

14. Financial Instruments and Risk Management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign currency risk

Our global operations expose us to foreign currency fluctuations. Revenues and related expenses generated from our Chinese subsidiaries are generally denominated in Chinese Renminbi ("RMB"), with certain raw material purchases and sales denominated in US dollars. Head office expenditures are generally denominated in Canadian dollars. Therefore, our primary currencies include RMB, US dollars and Canadian dollars. The Consolidated Statements of Income of our global operations are translated into Canadian dollars at the average exchange rates in each applicable period. To the extent the Canadian dollar strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into Canadian dollars results in reduced revenues, operating expenses and net income for our international operations. Similarly, our revenues, operating expenses and net income will increase for our international operations if the Canadian dollar weakens against foreign currencies. We cannot predict the effect foreign exchange fluctuations will have on our results going forward. However, if there is an adverse change in foreign exchange rates versus the Canadian dollar, it could have a material effect on our results of operations. A 10% change in the average exchange rate between C\$/RMB for a subject period shall have a 10% effect on the reporting revenue, operating expenses and net income in Canadian dollars.

Interest rate risk

The Company is exposed to interest rate risk on its short-term bank loans and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuation will be significant.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large PRC State-owned and private companies. A significant portion of the Company's accounts receivable is from long-time customers and the Company receives prepayments and deposits from them for a large portion of its sales. Over the last three years, the Company has not suffered any credit related losses with any of its customers.

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Notes to Interim Consolidated Financial Statements

For the three months period ended December 31, 2007 and 2006

(in Canadian dollars)

(Unaudited)

14. Financial Instruments and Risk Management - continued

Credit risk - continued

The carrying amount of financial assets represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts. As well, deposits by certain customers were often made which also helps to mitigate the risk if there is any.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's growth is financed through a combination of the cash flows from operations, borrowing under the existing credit facilities and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

At December 31, 2007 the Company's cash and cash equivalents balance was \$21,144,355 and working capital balance was \$39,583,634. As at December 31, 2007, short-term bank loans in the amount of \$4,667,850 (RMB 34.5 million) was outstanding under the Company's credit facilities.

Commodity Price Risk

Manufacturing costs for the Company's products are affected by the price of raw materials, namely potassium chloride, sulfuric acid, ammonium nitrate and certain other energy generating sources. In order to manage this risk, the Company includes a clause regarding transfer of risk to customers in all the medium and long-term sales contract in order to renegotiate the prices in the event of change. In addition, the Company had been utilizing its strong working capital position in stocking raw materials when its price is anticipated to rise.

Fair Value

The fair value of cash and cash equivalents, accounts receivable, other receivables, bank indebtedness, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturities. The fair value of the amount due to related party is not readily determinable due to the related party nature of the advances.

15. Subsequent Events

On January 8, 2008, 40,000 stock options were granted to an employee of the Company with an exercise price of \$9.93 per share vesting over three years.

Subsequent to December 31, 2007 and as of February 11, 2008, 60,750 warrants and 2,862 underwriters' compensation options were exercised for gross proceeds of \$298,132.