

Migao Corporation

Interim Consolidated Financial Statements
Second Quarter, Fiscal 2008
Ended March 31, 2008
(Unaudited)

Migao Corporation

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*For the three and six months ended March 31, 2008 and 2007
(Unaudited)*

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

	March 31, 2008	September 30, 2007
	<i>(Unaudited)</i>	<i>(Audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 32,875	\$ 17,453
Accounts receivable	16,943	6,373
Prepayments, deposits and other receivables (note 2)	32,973	10,614
Inventory (note 3)	30,852	19,101
Income taxes receivable	1,306	1,159
	114,949	54,700
Plant and equipment (note 5)	31,275	20,518
Construction in progress	3,442	5,972
Land use rights (note 6)	20,246	18,367
Future income tax assets, net	470	470
	\$ 170,382	\$ 100,027
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	\$ 4,325	\$ 4,578
Accounts payable and accrued liabilities (note 6)	17,548	9,958
Customer deposits	17,751	3,451
Due to related party (note 4)	24	45
Income taxes payable	788	-
	40,436	18,032
Shareholders' equity		
Share capital (note 8)	84,593	54,013
Contributed surplus (note 8)	8,232	8,551
Retained earnings (note 9)	34,192	26,527
Accumulated other comprehensive loss (note 10)	2,929	(7,096)
	129,946	81,995
Commitments (note 12)		
Subsequent events (note 15)		
	\$ 170,382	\$ 100,027

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

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Revenues	\$ 34,506	\$ 27,712	\$ 59,186	\$ 49,443
Cost of goods sold (note 5)	26,250	21,431	45,090	38,489
Gross profit	8,256	6,281	14,096	10,954
Operating expenses				
General and administrative (notes 5 and 6)	1,214	1,018	2,015	1,764
Selling	1,236	1,335	2,411	2,314
Professional and consulting	264	179	372	391
Stock-based compensation (note 8)	264	245	491	496
Finance costs	88	-	169	-
Pre-operating costs	100	-	117	-
	3,166	2,777	5,575	4,965
Income from operations	5,090	3,504	8,521	5,989
Other income	36	34	77	86
Income before income taxes	5,126	3,538	8,598	6,075
Provision for income taxes	561	200	933	328
Net income for the period	4,565	3,338	7,665	5,747
Retained earnings,				
beginning of period	29,627	17,730	26,527	15,321
Retained earnings,				
end of period	\$ 34,192	\$ 21,068	\$ 34,192	\$ 21,068
Income per share:				
Basic	\$ 0.12	0.10	\$ 0.20	0.19
Diluted	\$ 0.11	0.10	\$ 0.20	0.19
Weighted average number of common shares outstanding:				
Basic	38,187,058	31,859,414	37,710,652	30,492,712
Diluted	40,820,628	32,726,894	40,351,199	30,875,196

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Net income for the period	\$ 4,565	\$ 3,338	\$ 7,665	\$ 5,747
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	8,375	(351)	10,025	2,465
Comprehensive income	\$ 12,940	\$ 2,987	\$ 17,690	\$ 8,212

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Cash flows from operating activities				
Net income	\$ 4,565	3,338	\$ 7,665	5,747
Items not affecting cash:				
Amortization	615	616	1,054	971
Stock-based compensation	264	245	491	496
Changes in non-cash working capital items:				
Accounts receivable	(8,130)	7,723	(9,406)	(266)
Prepayments, deposits, and other receivables	(4,159)	(1,367)	(18,194)	(3,915)
Inventory	(6,941)	(6,676)	(9,296)	(6,841)
Accounts payable and accrued liabilities	3,122	182	6,530	1,030
Customer deposits	(1,579)	(2,335)	12,472	(1,223)
Tax payables	31	67	690	82
	(12,212)	1,793	(7,994)	(3,919)
Cash flows from investing activities				
Purchase of plant and equipment	(780)	(1,294)	(1,382)	(4,554)
Construction in process	(4,205)	(939)	(5,978)	(2,258)
Payments for land use rights	(488)	(2,400)	(488)	(4,920)
	(5,473)	(4,633)	(7,848)	(11,732)
Cash flows from financing activities				
Repayment of bank loan	(701)	(4,530)	(701)	(1,197)
Advances from related parties, net	-	281	-	642
Issuance of common shares, net	26,544	23,016	26,544	23,016
Proceeds from exercise of underwriters' compensation options	8	29	8	181
Proceeds from exercise of warrants	1,750	1,020	3,048	1,020
Proceeds from exercise of stock options	-	-	171	-
	27,601	19,816	29,070	23,662

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

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Foreign exchange gain on cash held in foreign currency	1,815	819	2,194	1,241
Increase in cash and cash equivalents	11,731	17,795	15,422	9,252
Cash and cash equivalents, beginning of period	21,144	7,773	17,453	16,316
Cash and cash equivalents, end of period	\$ 32,875	\$ 25,568	\$ 32,875	\$ 25,568

Cash and cash equivalents consist of:

Cash on hand	\$ 31,131	\$ 18,249
Term deposit	40	40
Bank notes	1,704	7,279
	\$ 32,875	\$ 25,568

Total interest paid during the three and six months period ended March 31, 2008 was \$81 and \$160 (RMB 0.6 million and RMB 1.2 million) (March 31, 2007 - \$46 or RMB 0.3 million and \$60 or RMB 0.4 million), respectively. Total tax paid during the three and six months period ended March 31, 2008 were both \$371 (RMB 2.8 million) (March 31, 2007 - \$134 or RMB 0.9 million and \$240 or RMB 1.6 million, respectively).

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(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”). Migao also indirectly holds 100% of the issued and outstanding capital of Migao Business Hotel Limited through Guangdong Migao.

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, except as disclosed below. 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.

Recent Accounting Pronouncements

Goodwill and Intangible Assets

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new

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Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

1. Nature of Operations and Basis of Presentation – continued

Recent Accounting Pronouncements – continued

Goodwill and Intangible Assets - continued

standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. Prepayments, Deposits, and Other Receivables

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Prepayments for raw materials	\$ 26,476	\$ 7,478
Prepayments for construction costs	2,828	904
Prepayment for transportation services	209	23
Prepayment for machinery	206	632
Deposits for the supply of utilities	165	151
Deposits for the sale of finished goods	189	-
VAT receivable	972	583
Other receivables and deposits	1,928	1,026
	\$ 32,973	\$ 10,614

3. Inventory

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Raw materials	\$ 23,908	\$ 13,931
Finished goods	6,781	1,075
Packing materials	150	90
Goods in transit	13	4,005
	\$ 30,852	\$ 19,101

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

4. Related Party Balance

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

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	\$ 24	\$ 45

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

5. Plant and Equipment

	March 31, 2008 (Unaudited)		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 17,552	\$ 1,072	\$ 16,480
Machinery and equipment	16,970	3,068	13,902
Vehicles	1,023	385	638
Office equipment	412	157	255
	\$ 35,957	\$ 4,682	\$ 31,275
			September 30, 2007 (Audited)
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 10,684	\$ 701	\$ 9,983
Machinery and equipment	11,984	2,181	9,803
Vehicles	794	289	505
Office equipment	338	111	227
	\$ 23,800	\$ 3,282	\$ 20,518

Amortization expense for the three and six months ended March 31, 2008 were \$580 and \$986 (March 31, 2007 - \$468 and \$821), respectively, and are included in cost of goods sold and general and administrative expense.

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Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

6. Land Use Rights

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Land use rights	\$ 20,574	\$ 18,597
Less: accumulated amortization	328	230
	\$ 20,246	\$ 18,367

As of March 31, 2008, the Company had sixteen land leases from the Chinese government with terms of fifty to seventy years.

Amortization expense for the three and six months ended March 31, 2008 were \$35 and \$68 (March 31, 2007 - \$148 and \$150), respectively, and are included in general and administrative expense.

As of March 31, 2008, the Company had not obtained the land use right certificates for eight of the land leases and approximately \$4,800 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 March 31, 2008, the Company has short-term bank loans outstanding totaling \$4,325 (RMB 29.5 million) (September 30, 2007 - \$4,578 or RMB 34.5 million) for working capital purposes. Subsequent to March 31, 2008 and as of May 9, 2008, there were \$732 (RMB 5.0 million) loan payments made on the outstanding bank loans.

<u>Amount</u>	<u>Due Date</u>	<u>Interest per annum</u>	<u>Secured by</u>
\$ 732	April 20, 2008	6.7095%	certain land use rights
\$ 1,467	May 29, 2008	6.57%	certain land use rights
\$ 2,126	August 20, 2008	6.9084%	certain land use rights and buildings

Total carrying value of the security was \$1,586 (RMB 10.8 million). Total interest paid during the three and six months period ended March 31, 2008 was \$81 and \$160 (RMB 0.6 million and RMB 1.2 million) (March 31, 2007 - \$46 or RMB 0.3 million and \$60 or RMB 0.4 million), respectively.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(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
Issued on exercise of underwriters' compensation options (i)	2,862	8
Fair value of underwriters' compensation options (i)	-	3
Fair value of warrants issued (i)	-	(2)
Exercise of warrants (ii)	530,890	1,964
Fair value of warrants exercised (ii)	-	350
Exercise of warrants (iii)	204,450	1,084
Fair value of warrants exercised (iii)	-	374
Exercise of stock options (iv)	60,000	171
Fair value of stock options exercised (iv)	-	84
Issued pursuant to a private placement (v)	3,593,750	28,750
Share issuance costs (v)	-	(2,206)
Balance – March 31, 2008	41,432,380	\$ 84,593

(i) Each of the 2,862 underwriters' compensation options exercised consisted of 1 common share and ½ common share purchase warrant. The fair value of options were estimated using the Black-Scholes option pricing model to be \$1.09 per option. The warrants issued on the exercise of these options are valued at \$1.38 per warrant.

(ii) During the quarter ended March 31, 2008, 414,500 (530,890 for the six months ended March 31, 2008) 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.

(iii) During the quarter ended March 31, 2008, 40,750 (204,450 for the six months ended March 31, 2008) 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.

(iv) During the quarter ended March 31, 2008, none (60,000 for the six months ended March 31, 2008) of the common share purchase options with an exercise price of \$2.85 per common share issued to the employees and directors of the Company were exercised. The stock options were valued at \$1.40 per option.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

8. Share Capital - continued

(b) Issued common shares - continued

(v) On March 13, 2008, the Company completed a private placement of 3,593,750 common shares priced at \$8.00 per share. Pursuant to the Underwriting Agreement, the Company paid the agents an underwriting commission of \$0.46 per share, reflecting a commission of 5.75%. In addition to the underwriting commission, the Company paid \$553 in total for expenses incurred on this private placement.

(c) Contributed surplus

	Amount
Balance – September 30, 2007	\$ 8,551
Fair value of exercised underwriters' compensation options	(3)
Fair value of warrants issued on the exercise of underwriters' compensation options	2
Stock-based compensation expense	491
Fair value of warrants exercised	(724)
Fair value of stock options exercised	(84)
Balance – March 31, 2008	\$ 8,232

(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 period.

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 period	40,000	9.93
Exercised during the previous period	(60,000)	2.85
Outstanding – March 31, 2008	1,165,000	\$ 3.63

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

8. Share Capital - continued

(d) Stock options - continued

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

As of March 31, 2008

<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	3.13	228,333
\$7.69	60,000	4.25	NIL
\$8.46	60,000	4.25	NIL
\$9.93	40,000	4.75	NIL
\$3.63	1,165,000	3.30	228,333

During the quarter ended March 31, 2008, 40,000 options were issued to an employee of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$9.93 per common share. These options have vesting periods of up to three years and an exercise period of up to five years, expiring on January 7, 2013. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$7.60 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 3.22%; expected volatility 102%; and expected life of 5 years. Stock-based compensation expense for the three months ended March 31, 2008 was \$43 (March 31, 2007 – NIL).

Total stock-based compensation expense on the options granted in the prior years for the three and six months ended March 31, 2008 was \$221 and \$448 (March 31, 2007 - \$245 and \$496), respectively.

(e) Warrants

As at March 31, 2008, the following share purchase warrants were outstanding:

<u>September 30, 2007</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>March 31, 2008</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,337,333	1,431	530,890	-	1,807,874	\$ 3.70	May 18, 2008
2,825,450	-	204,450	-	2,621,000	\$ 5.30	February 22, 2009
5,162,783	1,431	735,340	-	4,428,874		

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Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

8. Share Capital - continued

(f) Underwriters' Compensation Options

As at March 31, 2008, the following underwriters' compensation options were outstanding:

September 30, 2007 (outstanding and exercisable)	Issued	Exercised	Expired	March 31, 2008 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
5,862	-	2,862	-	3,000	\$ 2.85	0.13
225,938	-	-	-	225,938	\$ 4.15	0.90
231,800	-	-	-	228,938	\$ 4.13	0.89

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 March 31, 2008 was \$3,395 (RMB 23.2 million; September 30, 2007 – \$2,284 or RMB 17.2 million).

10. Accumulated Other Comprehensive Loss

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – September 30, 2007	\$ (7,096)
Unrealized foreign currency translation gains during the period	10,025
Balance – March 31, 2008	\$ 2,929

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 the Company's assets and operations, with the exception of a corporate office in Toronto, Canada, are located in the PRC.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

12. Commitments

Purchase commitments for raw materials and supplies in the amount of approximately \$42,100 (RMB 287 million) exist as of March 31, 2008. These contracts were entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$7,200 (RMB 49 million) exist as of March 31, 2008. These contracts were 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. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. 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.

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 Operations 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 other comprehensive income.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

14. Financial Instruments and Risk Management - continued

Market Risk – continued

Foreign currency risk - continued

At March 31, 2008, through its wholly owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$30,964, accounts receivable of \$16,820, other receivables of \$1,871, accounts payable and accrued liabilities of \$17,219, and bank indebtedness of \$4,325, which were denominated in RMB. Gains and losses arising upon translation of these amounts into Canadian dollars for inclusion in the consolidated financial statements are recorded within other comprehensive income, a component of shareholder's equity. A 10% change in the average exchange rate between C\$/RMB on the financial instruments shall have a \$2,820 effect on the other comprehensive 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 significant credit related losses with any of its customers.

At March 31, 2008, the Company does not consider any of its financial assets to be impaired.

The following table provides information regarding the ageing of financial assets that are past due but which are not impaired.

Current	90 – 180 days	180 – 365 days	365 days +	Carrying value on the balance sheet
\$14,667	\$1,736	\$528	\$12	\$16,943

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

14. Financial Instruments and Risk Management - continued

Credit risk - continued

The definition of items that are past due is determined by reference to terms agreed with individual customers. None of the amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

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 March 31, 2008 the Company's cash and cash equivalents balance was \$32,875 and working capital balance was \$74,513. As at March 31, 2008, short-term bank loans in the amount of \$4,325 (RMB 29.5 million) were 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 their price is anticipated to rise.

Migao Corporation

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For the three and six months ended March 31, 2008 and 2007

(in thousands of Canadian dollars, except per share amounts)

(Unaudited)

14. Financial Instruments and Risk Management - continued

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

Subsequent to March 31, 2008 and as of May 9, 2008, 282,514 warrants, 3,000 underwriters' compensation options, and 255,000 stock options were exercised for gross proceeds of \$1,781.