

Migao Corporation

**Interim Consolidated Financial Statements
First Quarter, Fiscal 2009
Ended December 31, 2008
(Unaudited)**

Migao Corporation

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For the three months ended December 31, 2008

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 17,816	\$ 16,850
Accounts receivable	27,596	8,598
Prepayments, deposits and other receivables (note 2)	43,872	31,859
Inventory (note 3)	69,273	78,430
Due from related party (note 4)	-	36
Income taxes receivable	-	526
Future income tax assets	80	60
	158,637	136,359
Prepayments and deposits (note 2)	2,558	6,865
Plant and equipment (note 5)	46,129	34,303
Construction in progress	17,084	10,272
Land use rights (note 6)	24,570	21,077
Future income tax assets	731	518
	\$ 249,709	\$ 209,394
Liabilities		
Current liabilities		
Bank loans (note 7)	\$ 16,604	\$ 13,855
Accounts payable and accrued liabilities (note 6)	8,560	10,902
Customer deposits	15,607	14,671
Income taxes payable	961	1,168
Future income tax liabilities	170	420
	41,902	41,016
Shareholders' equity		
Share capital (note 8)	94,608	94,608
Contributed surplus (note 8)	8,483	7,891
Retained earnings (note 9)	65,781	53,830
Accumulated other comprehensive income (note 10)	38,935	12,049
	207,807	168,378
Commitments (note 12)		
Subsequent events (note 14)		
	\$ 249,709	\$ 209,394

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

Approved on behalf of the Board of Directors

Signed by "Guocai Liu" _____

Director

Signed by "Keith Attoe" _____

Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

For the Three months ended December 31, 2008 and 2007
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	December 31, 2008	December 31, 2007
Revenues	\$ 76,531	\$ 24,680
Cost of goods sold	59,218	18,840
Gross profit	17,313	5,840
Operating expenses		
Selling	1,708	1,175
General and administrative (notes 5 and 6)	2,114	910
Stock-based compensation (note 8)	592	227
Pre-operating costs	128	17
Finance costs	305	81
	4,847	2,410
Income from operations	12,466	3,430
Other income	309	41
Income before income taxes	12,775	3,471
Provision for income taxes:		
Current	1,307	371
Future	(483)	-
Net income for the period	11,951	3,100
Retained earnings, beginning of period	53,830	26,527
Retained earnings, end of period	\$ 65,781	\$ 29,627
Income per share:		
Basic	\$ 0.27	\$ 0.08
Diluted	\$ 0.27	\$ 0.08
Weighted average number of common shares outstanding:		
Basic	43,675,611	37,253,629
Diluted	43,883,557	40,088,755

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

For the three months ended December 31, 2008 and 2007

(in thousands of Canadian dollars)

(Unaudited)

	December 31, 2008	December 31, 2007
Net income	\$ 11,951	\$ 3,100
Other comprehensive income, net of tax:		
Unrealized gains on translating financial statements of self-sustaining foreign operations	26,886	1,649
Comprehensive income	\$ 38,837	\$ 4,749

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

For the three months ended December 31, 2008 and 2007

(in thousands of Canadian dollars)

(Unaudited)

	December 31, 2008	December 31, 2007
Cash flows from operating activities		
Net income	\$ 11,951	\$ 3,100
Items not affecting cash:		
Amortization	902	439
Stock-based compensation	592	227
Future income taxes	(483)	-
Changes in non-cash working capital items:		
Accounts receivable	(17,430)	(1,276)
Prepayments, deposits, and other receivables	1,166	(14,035)
Inventory	13,421	(2,355)
Accounts payable and accrued liabilities	(3,978)	3,408
Customer deposits	(1,389)	14,052
Income taxes payable	525	659
	5,277	4,219
Cash flows from investing activities		
Purchase of plant and equipment	(2,029)	(602)
Payment on construction in progress	(5,088)	(1,773)
Payments for land use rights	(186)	-
Value-added tax refunds on plant and equipment	225	-
	(7,078)	(2,375)
Cash flows from financing activities		
Proceeds from bank loans	532	-
Repayment of advances from related party	-	(283)
Proceeds from exercise of warrants	-	1,298
Proceeds from exercise of stock options	-	171
	532	1,186

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

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

For the three months ended December 31, 2008 and 2007

(in thousands of Canadian dollars)

(Unaudited)

	December 31, 2008	December 31, 2007
Foreign exchange gain on cash held in foreign currency	\$ 2,235	\$ 661
Increase in cash and cash equivalents	966	3,691
Cash and cash equivalents, beginning of period	16,850	17,453
Cash and cash equivalents, end of period	\$ 17,816	\$ 21,144

Cash and cash equivalents consist of:

Cash on hand	\$ 16,527	\$ 20,843
Term deposit	40	40
Bank notes	1,249	261
	\$ 17,816	\$ 21,144

Total interest paid during the three months ended December 31, 2008 was \$300 (RMB 1.7 million) (December 31, 2007 - \$79 or RMB 0.6 million). Total tax paid during the three months ended December 31, 2008 was \$1,094 (RMB 6.2 million) (December 31, 2007 - \$Nil).

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 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 (“H.K. 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 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 unaudited interim consolidated financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recently audited annual financial statements of Migao, except as disclosed below. These unaudited interim consolidated financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, these financial statements should be read in conjunction with the audited financial statements of Migao for the year ended September 30, 2008. Interim results are not necessarily indicative of the results expected for the fiscal year.

Adoption of New Accounting Policies

Effective October 1, 2008, the Company adopted the following new accounting standards.

Inventories

The new standard 3031 - Inventories provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This standard did not have a material impact on its consolidated financial position, results of operations or cash flows; however, the Company now carries raw materials inventory at the lower of cost and net realizable value. Previously, the Company carried raw materials inventory at the lower of cost and replacement cost.

Goodwill and Intangible Assets

The new standard 3064 - Goodwill and intangible assets replaces Section 3062 - Goodwill and Other Intangible Assets and Section 3450- Research and Development Costs. 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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

1. Nature of Operations and Basis of Presentation - continued

Adoption of New Accounting Policies - continued

Goodwill and Intangible Assets- continued

The adoption of these new accounting standards did not impact the amounts reported in the Company's consolidated financials statements.

Recent Accounting Pronouncements

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 Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is required to adopt IFRS for the year beginning April 1, 2011 and is required to restate the comparative figures. While the Company has begun assessing and reviewing the impact of IFRS, and has engaged in professional development for its adoption in 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. Prepayments, Deposits, and Other Receivables

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Current:		
Prepayments for raw materials	\$ 38,018	\$ 25,817
Prepayments for transportation services	334	357
Deposits for the supply of utilities	13	224
Deposits on obtaining sales contracts	941	777
VAT receivable	3,552	3,711
Other receivables and deposits	1,014	973
Prepayments, deposits, and other receivables – current	\$ 43,872	\$ 31,859
Long Term:		
Prepayments for construction costs	1,229	5,485
Prepayments for machinery	1,329	1,380
Prepayments and deposits – long term	\$ 2,558	\$ 6,865

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

3. Inventory

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Raw materials	\$ 50,325	\$ 66,313
Finished goods	18,511	11,795
Packing and other materials	437	124
Goods in transit	-	198
	\$ 69,273	\$ 78,430

During the quarter, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs.

4. Related Party Balances

At the end of the quarter, the Company had the following related party balances:

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Amount due from :		
Migao New Energy (Sichuan) Co. Ltd. ("MNEC")	\$ -	\$ 36

Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") contributed services to the Company and because of the difficulty in determining the fair market value, the values of these contributed services were not recognized in the financial statements. In addition, LYEDC has provided corporate guarantees on \$7,180 of the Company's short-term bank loans outstanding as of December 31, 2008.

During the year ended September 30, 2008, the Company paid land evaluation and business registration fees for a total of \$36 on behalf of MNEC. These transactions were in the normal course of business and were measured at the exchange amounts, which are the amounts agreed upon by the parties.

MNEC and LYEDC are both controlled by an officer and director of Migao.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

5. Plant and Equipment

	December 31, 2008 (Unaudited)		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 27,075	\$ 2,207	\$ 24,868
Machinery and equipment	25,153	5,116	20,037
Vehicles	1,414	632	782
Office equipment	713	271	442
	\$ 54,355	\$ 8,226	\$ 46,129
			September 30, 2008 (Audited)
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 20,772	\$ 1,630	\$ 19,142
Machinery and equipment	18,148	4,024	14,124
Vehicles	1,138	497	641
Office equipment	603	207	396
	\$ 40,661	\$ 6,358	\$ 34,303

Amortization expense for the three months ended December 31, 2008 was \$845 (December 31, 2007 - \$406) and is included in cost of goods sold and general and administrative expense.

During the quarter, Sichuan Migao was approved and paid by the local tax authority for value-added tax refund totaling \$225 (RMB 1.3 million) (December 31, 2007 - \$Nil) on purchases of domestic equipment. The value-added tax refund was recorded as a reduction of the cost of the related equipment.

6. Land Use Rights

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Land use rights	\$ 25,120	\$ 21,501
Less: accumulated amortization	550	424
	\$ 24,570	\$ 21,077

As of December 31, 2008, the Company had fifteen land leases from the Chinese government with terms of fifty years.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

6. Land Use Rights - continued

Amortization expense for the period ended December 31, 2008 was \$57 (December 31, 2007 - \$33), and is included in general and administrative expense.

As of December 31, 2008, the Company had not obtained the land use right certificates for five 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 Loans

At December 31, 2008, the Company has short-term bank loans outstanding totaling \$16,604 (RMB 92.5 million) (September 30, 2008 - \$13,855 or RMB 89.5 million) for working capital purposes.

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Quarter End</u>	<u>Secured by</u>
\$ 2,693	April 29, 2009	110% of prime rate in China ("PC")	6.138%	one land use right
\$ 538	Nov. 18, 2009	110% of PC	6.138%	one land use right
\$ 3,590	June 20, 2009	PC	5.58%	corporate guarantees from Sichuan Migao and LYEDC
\$ 3,590	June 25, 2009	PC	5.58%	corporate guarantees from Sichuan Migao and LYEDC
\$ 3,590	Mar. 29, 2009	130% of PC	7.254%	one land use right and a building
\$ 1,436	Aug. 13, 2009	110% of PC	6.138%	one land use right
<u>\$ 1,167</u>	Aug. 18, 2009	110% of PC	6.138%	one land use right
\$ 16,604				

Total carrying value of the security was \$5,837 (RMB 32.5 million) (September 30, 2008 - \$5,099 or RMB 32.9 million). Total interest paid during the three months ended December 31, 2008 was \$300 (RMB 1.7 million) (December 31, 2007 - \$79 or RMB 0.6 million)

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Notes to Interim Consolidated Financial Statements

For the three months ended December 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, 2008 and December 31, 2008	43,675,611	\$ 94,608

(c) **Contributed surplus**

	Amount
Balance - September 30, 2008	\$ 7,891
Stock-based compensation expense	592
Balance – December 31, 2008	\$ 8,483

(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 Weighted average exercise price
Outstanding - September 30, 2008	1,385,000	\$ 5.78
Expired during the period	(30,000)	8.46
Outstanding – December 31, 2008	1,355,000	\$ 5.72

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Notes to Interim Consolidated Financial Statements

For the three months ended December 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 December 31, 2008

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise Price for exercisable options
\$2.85	750,000	2.38	361,666	\$2.85
\$7.69	60,000	3.50	20,000	\$7.69
\$8.46	30,000	3.50	10,000	\$8.46
\$9.93	40,000	4.00	NIL	N/A
\$9.48	300,000	4.42	50,000	\$9.48
\$9.48	175,000	4.42	NIL	N/A
\$5.78	1,355,000	3.22	441,666	\$3.95

During the year ended September 30, 2008, a total of 515,000 options were issued to an employee, officers, and directors of the Company. Each option entitles the holder to purchase one common share of the Company at a weighted average price of \$9.51 per common share. Upon granting of the options, 50,000 options were vested immediately and the balance of the options have vesting periods of up to three years and an exercise period of up to five years, expiring between January 7, 2013 to June 1, 2013. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue with a weighted average value of \$7.10 per option. Weighted average assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 3.15%; expected volatility 97%; and expected life of 5 years. Stock-based compensation expense on these options for the three months ended December 31, 2008 was \$508 (December 31, 2007 – \$Nil).

For the three months ended December 31, 2008, total stock-based compensation expense on the options granted prior to the year ended September 30, 2008 was \$84 (December 31, 2007 - \$227).

(e) Warrants

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

September 30, 2008	Issued	Exercised	Expired	December 31, 2008	Exercise Price	Expiry Date
2,603,300	-	-	-	2,603,300	\$ 5.30	February 22, 2009

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

8. Share Capital - continued

(f) Underwriters' Compensation Options

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

September 30, 2008 (outstanding and exercisable)	Issued	Exercised	Expired	December 31, 2008 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
120,500	-	-	-	120,500	\$ 4.15	0.15

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. As of December 31, 2008, the total paid in capital of the Company's PRC entities is \$96,863 (RMB 539.6 million; September 30, 2008 - \$83,535 or RMB 539.6 million). 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, 2008 was \$8,568 (RMB 48.3 million; September 30, 2008 - \$5,432 or RMB 38.1 million).

10. Accumulated Other Comprehensive Income

	Unrealized gains on translating financial statements of self-sustaining foreign operations
Balance – September 30, 2008	\$ 12,049
Unrealized foreign currency translation gains during the period	26,886
Balance – December 31, 2008	\$ 38,935

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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended December 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 \$7.6 million (RMB 42.6 million) exist as of December 31, 2008 (September 30, 2008 - \$23.5 million or RMB 151.7million). These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$7.1 million (RMB 39.3 million) exist as of December 31, 2008 (September 30, 2008 - \$10.4 million or RMB 66.9 million). These contracts are entered into in the normal course of business.

13. Financial Instruments and Risk Management

Market Risk

Foreign currency risk

At December 31, 2008, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$17,706, accounts receivable of \$27,596, other receivables of \$4,578, accounts payable and accrued liabilities of \$8,407, and bank loans of \$16,604, 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 shareholders' equity. A 10% change in the average exchange rate between C\$/RMB on the financial instruments would have a \$2,480 effect on the other comprehensive income in Canadian dollars.

Credit Risk

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
\$26,573	\$435	\$304	\$284	\$27,596

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 expects that this balance is fully collectible in the future.

14. Subsequent Events

Subsequent to the period end, the following transactions were completed:

On January 1, 2009, the Company signed a new purchase contract with Liaoning Fulusi Agricultural Means of Production Co., Ltd. to purchase 70,000 tonnes of potassium chloride.

Between January 1, 2009 and February 12, 2009, 70,750 warrants and 120,500 underwriters' compensation options were exercised for gross proceeds of \$875,050.

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Notes to Interim Consolidated Financial Statements

For the three months ended December 31, 2008 and 2007

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

(Unaudited)

15. Change of Year End

Effective December 22, 2008, the Company's year end has been changed to March 31 from the current fiscal year end of September 30.