

Migao Corporation

Consolidated Financial Statements

Year ended March 31, 2010

Six months ended March 31, 2009

Year ended September 30, 2008

Migao Corporation

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March 31, 2010, March 31, 2009, and September 30, 2008

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Auditors' Report

To the Shareholders of
Migao Corporation

We have audited the consolidated balance sheets of Migao Corporation as at March 31, 2010, March 31, 2009 and September 30, 2008 and the consolidated statements of operations and retained earnings, comprehensive income and cash flows for the year ended March 31, 2010, six months ended March 31, 2009 and the year ended September 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010, March 31, 2009 and September 30, 2008 and the results of its operations and its cash flows for the year ended March 31, 2010, six months ended March 31, 2009 and the year ended September 30, 2008 in accordance with Canadian generally accepted accounting principles.

Signed: *"MSCM LLP"*

**Chartered Accountants
Licensed Public Accountants**

Toronto, Ontario
June 2, 2010

Migao Corporation

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	March 31, 2010	March 31, 2009	September 30, 2008
Assets			
Current assets			
Cash and cash equivalents	\$ 60,221	\$ 41,688	\$ 16,850
Restricted cash (note 3)	13,819	553	-
Accounts receivable	36,649	20,477	8,598
Prepayments, deposits and other assets (note 4)	30,743	33,569	31,859
Inventory (note 5)	120,181	82,393	78,430
Due from related party (note 6)	28	158	36
Due from joint venture partner (note 7)	1,270	-	-
Income taxes receivable	-	-	526
Future income tax assets (note 14)	1,859	636	60
	264,770	179,474	136,359
Prepayments, deposits and other assets (note 4)	904	1,441	6,865
Plant and equipment (note 8)	55,748	52,147	34,303
Construction in progress	2,339	16,017	10,272
Land use rights (note 9)	19,386	25,062	21,077
Future income tax assets (note 14)	829	1,051	518
	\$ 343,976	\$ 275,192	\$ 209,394
Liabilities			
Current liabilities			
Loans (note 10)	\$ 40,831	\$ 20,745	\$ 13,855
Accounts payable and accrued liabilities (note 9)	10,591	7,016	10,902
Notes payables (note 3)	13,813	553	-
Customer deposits	7,219	2,620	14,671
Income taxes payable	1,734	2,008	1,168
Future income tax liabilities (note 14)	1,131	322	420
	75,319	33,264	41,016
Future income tax liabilities (note 14)	151	375	-
	75,470	33,639	41,016
Shareholders' equity			
Share capital (note 11)	152,230	114,431	94,608
Contributed surplus (note 11)	5,702	3,883	7,891
Retained earnings (note 12)	116,780	78,492	53,830
Accumulated other comprehensive (loss) income (note 13)	(6,206)	44,747	12,049
	268,506	241,553	168,378
Commitments (note 17)			
	\$ 343,976	\$ 275,192	\$ 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

Consolidated Statements of Operations and Retained Earnings

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

	Year ended Mar. 31, 2010	Six Months ended Mar. 31, 2009	Year ended Sept. 30, 2008
Revenues	\$ 269,107	\$ 161,484	\$ 187,028
Cost of goods sold (note 8)	206,453	125,194	141,508
Gross profit	62,654	36,290	45,520
Operating expenses			
Selling	6,074	3,325	6,334
General and administrative (notes 8 and 9)	8,826	4,728	6,618
Stock-based compensation (note 11)	1,719	1,148	1,888
Pre-operating costs	492	166	419
Finance costs	1,732	287	461
Foreign exchange loss	107	-	-
	18,950	9,654	15,720
Income from operations	43,704	26,636	29,800
Other income	335	360	180
Gain on sale of non-operating subsidiary	-	-	98
Income before income taxes	44,039	26,996	30,078
Provision for income taxes (note 14)	5,751	2,334	2,775
Net income for the period	38,288	24,662	27,303
Retained earnings, beginning of period	78,492	53,830	26,527
Retained earnings, end of period	\$ 116,780	\$ 78,492	\$ 53,830
Earnings per share: (note 15)			
Basic	\$ 0.80	\$ 0.56	\$ 0.67
Diluted	\$ 0.79	\$ 0.55	\$ 0.63
Weighted average number of common shares outstanding: (note 15)			
Basic	48,125,050	44,381,008	40,658,089
Diluted	48,596,359	44,708,973	43,099,724

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

Migao Corporation

Consolidated Statements of Comprehensive (Loss) Income

(in thousands of Canadian dollars)

	Year ended Mar. 31, 2010	Six Months ended Mar. 31, 2009	Year ended Sept. 30, 2008
Net income	\$ 38,288	\$ 24,662	\$ 27,303
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(50,953)	32,698	19,145
Comprehensive income	\$ (12,665)	\$ 57,360	\$ 46,448

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

Migao Corporation

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended Mar. 31, 2010	Six Months ended Mar. 31, 2009	Year ended Sept. 30, 2008
Cash flows from operating activities			
Net income	\$ 38,288	\$ 24,662	\$ 27,303
Items not affecting cash:			
Amortization	4,213	1,996	2,471
Stock-based compensation	1,719	1,148	1,888
Gain on sale of non-operating subsidiary	-	-	(98)
Future income taxes	(574)	(693)	312
Amortization of deferred transaction costs	129	-	-
Changes in non-cash working capital items:			
Restricted cash	(14,716)	539	-
Accounts receivable	(23,276)	(10,001)	(1,089)
Prepayments, deposits, and other assets	(2,690)	3,996	(19,301)
Inventory	(57,812)	11,013	(51,818)
Accounts payable and accrued liabilities	5,200	(715)	(608)
Notes payable	14,215	539	-
Customer deposits	5,483	(14,840)	9,798
Due from related parties	130	-	33
Due to related parties	-	-	(45)
Due from joint venture partner	(1,321)	-	-
Prepayment to related party	-	(121)	-
Income taxes payable	20	1,527	1,586
	(30,992)	17,972	(29,568)
Cash flows from investing activities			
Purchase of plant and equipment	(8,109)	(4,042)	(6,724)
Payment on construction in progress	(5,984)	(6,150)	(12,857)
Refund on land use rights	770	-	1,866
Payments for land use rights	(1,398)	(4,227)	(3,321)
Proceeds from sale of non-operating subsidiary	-	-	1,143
Proceeds from sale of land use right	1,069	-	-
Value-added tax refunds on plant and equipment	1,409	228	-
Refund on prepayment made for equipment	4,371	-	-
	(7,872)	(14,191)	(19,893)

Migao Corporation

Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

	Year ended Mar. 31, 2010	Six Months ended Mar. 31, 2009	Year ended Sept. 30, 2008
Cash flows from financing activities			
Proceeds from loans	50,214	11,322	12,750
Repayment of loans	(23,695)	(7,189)	(4,915)
Issuance of common shares, net of costs	37,799	-	26,478
Proceeds from exercise of underwriters' compensation options	-	500	454
Proceeds from exercise of warrants	-	14,117	10,116
Proceeds from exercise of stock options	-	-	898
	64,318	18,750	45,781
Foreign exchange (loss) gain on cash held in foreign currency	(6,921)	2,307	3,077
Increase (decrease) in cash and cash equivalents	18,533	24,838	(603)
Cash and cash equivalents, beginning of period	41,688	16,850	17,453
Cash and cash equivalents, end of period	\$ 60,221	\$ 41,688	\$ 16,850
Cash and cash equivalents consist of:			
Cash on hand	\$ 58,232	\$ 33,030	\$ 15,728
Term deposit	40	40	40
Bank notes	1,949	8,618	1,082
	\$ 60,221	\$ 41,688	\$ 16,850

Total interest paid during the period ended March 31, 2010 was \$1,594 (RMB 10.0 million) (March 31, 2009 - \$601 or RMB 3.3 million; September 30, 2008 - \$445 or RMB 3.2 million). Total tax paid during the period ended March 31, 2010 was \$5,061 (RMB 31.7 million) (March 31, 2009 - \$1,816 or RMB 10.1 million; September 30, 2008 - \$695 or RMB 4.9 million). Total tax refunded during the period ended March 31, 2010 was \$Nil (RMB Nil) (March 31, 2009 - \$Nil; September 30, 2008 - \$1,331 or RMB 9.3 million). Total interest subsidy received by the Company during the period ended March 31, 2010 was \$126 (RMB 0.7 million) (March 31, 2009 - \$188 or RMB 1.0 million; September 30, 2008 - \$Nil).

Non-cash transactions for the year ended March 31, 2010 includes transfer of \$13,452 (March 31, 2009 - \$8,223; September 30, 2008 - \$9,534) from construction in progress to plant and equipment.

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

Migao Corporation

Notes to Consolidated Financial Statements

*For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)*

1. Nature of Operations

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”).

On May 18, 2008, the Company and Sociedad Quimica y Minera de Chile S.A. (“SQM”) entered into an agreement to create a joint venture, Sichuan SQM – Migao Chemical Fertilizer Co., Ltd. (“SQM JV”), for the production of potassium nitrate in the PRC. The parties agreed that the registered capital of the SQM JV would be twenty million U.S. dollars, with the Company and SQM each contributing ten million US dollars in return for a 50% interest in the joint venture. The SQM JV is owned 50/50 by Migao (through H.K. Migao) and SQM. The SQM JV was set up on September 1, 2009 and the joint venture partners have started to make contributions to the joint venture during the period (note 7).

On March 31, 2010, Migao International (Singapore) Pte. Ltd. (“Migao Singapore”) was incorporated. H.K. Migao holds 100% of the issued and outstanding capital of Migao Singapore. The Singapore subsidiary was set up to assist the Company with its international expansion and marketing efforts.

2. Significant Accounting Policies

Change in year end

The Company changed its year end from September 30 to March 31, effective March 31, 2009. Accordingly, these consolidated financial statements include comparatives for the six month period ended March 31, 2009 and twelve month period ended September 30, 2008.

Basis of presentation

These 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 and the proportionate share of the accounts of SQM JV in the PRC. All intercompany balances and transactions have been eliminated upon consolidation.

Cash equivalents

The Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

2. Significant Accounting Policies - continued

Prepayments and deposits

The Company makes prepayments to suppliers to facilitate its purchasing arrangements. These payments are recognized as prepayments when made and recognized as goods and services when received. Prepayments and deposits on assets that are long term in nature are recorded as long term prepayments and deposits.

Inventory

Effective October 1, 2008, the Company adopted CICA Handbook Section 3031- Inventories, which has replaced Section 3030 of the same title. The new standard 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. In accordance with the new standard, raw materials and finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is determined using the weighted-average method. Net realizable value represents the anticipated selling price less all further costs for distribution. The Company now carries raw materials inventory at the lower of cost and net realizable value. Prior to October 1, 2008, the Company carried raw materials inventory at the lower of cost and replacement cost, however, the adoption of the new standard did not have a material impact on its consolidated financial position, results of operations or cash flows.

Plant and equipment

Plant and equipment are recorded at cost. Amortization is provided over the expected useful lives of the plant and equipment with a 10% residual value using the following methods and annual rates:

Building and improvements	-	10 to 20 years straight-line
Machinery and equipment	-	10 years straight-line
Vehicles	-	5 years straight-line
Office equipment	-	5 years straight-line

Construction in progress

Construction in progress represents buildings and equipment under construction and is stated at cost. Construction in progress is not amortized until such time as the assets are completed and put into operational use.

Land use rights

Land use rights are recorded at cost and are amortized over 50 years, which are the terms of the land use rights set by the Chinese government.

Impairment of long-lived assets

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

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Notes to Consolidated Financial Statements

*For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)*

2. Significant Accounting Policies - continued

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on income tax assets and liabilities is reflected in operations in the period in which the change occurs. Valuation allowances are established when necessary to reduce future tax assets to the amount expected to be realized.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method, except when their effect would be anti-dilutive. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

Revenue recognition

Revenue is recognized when goods are shipped and all significant risks and rewards of ownership are passed to the customer with collection of revenue reasonably assured. Payments received in advance for orders that do not yet qualify for recognition under the Company's policies are recorded as customer deposits.

Pre-operating costs

All expenditures incurred prior to the commencement of commercial operations are expensed.

Stock-based compensation

The Company has in effect a Stock Option Plan ("the Plan"), which is described in note 11. Stock options awarded to non-employees and employees are accounted for at fair value on a graded vesting basis. Fair value is calculated using the Black-Scholes model with the assumptions described in note 11. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

Government assistance

The Company makes periodic applications for financial assistance under available government incentive programs including interest subsidies and tax credits or value-added tax refunds related to purchases of domestic equipments. The Company recognizes government assistance when it is approved by the government. Government interest subsidies are recorded as a reduction of finance costs when the expense is incurred. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

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Notes to Consolidated Financial Statements

*For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)*

2. Significant Accounting Policies - continued

Foreign exchange

The Company's functional currency is the Canadian dollar ("C\$"), the China based Subsidiaries and SQM JV's functional currency is the Chinese Renminbi ("RMB"), and H.K. Migao's functional currency is the C\$ but has transactions that are dominated in U.S. dollar. The accounts of the Subsidiaries and SQM JV are translated into C\$ using the current rate method. Under this method, assets and liabilities are translated at the year end rate of exchange. Revenues and expenses are translated into C\$ at the average rate of exchange for the period. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as accumulated other comprehensive income. H.K. Migao's U.S. dollar transactions have been translated into C\$ at the exchange rates prevailing on the date of transactions. H.K. Migao's U.S. dollar denominated monetary assets and liabilities are translated into C\$ at the exchange rate prevailing on the balance sheet date. Exchange gains and losses have been included in the determination of net income.

Financial instruments

The Company has classified its cash and cash equivalents and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable, other receivables, due from related parties, and due from joint venture partner are classified as loans and receivables, which are measured at amortized cost. Loans, accounts payable and accrued liabilities, and notes payable are classified as other financial liabilities, which are measured at amortized cost.

Measurement uncertainty

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of plant and equipment and land use rights, valuation allowances for receivables and inventories, cost allocation between finished goods, and future income taxes and stock-based compensation. Actual results could differ from those estimates.

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted the new standard 3064 - Goodwill and intangible assets that 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. The adoption of this new accounting standards did not impact the amounts reported in the Company's consolidated financial statements.

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Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

2. Significant Accounting Policies - continued

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 profit-oriented publicly accountable enterprises 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 Company is currently evaluating the impact of the transition to IFRS.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 - Business Combinations ("Section 1582"), Section 1601- Consolidated Financial Statements ("Section 1601"), and Section 1602 - Non-controlling Interests ("Section 1602"). Section 1582 replaces CICA Handbook Section 1581 - Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after April 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 replaces CICA Handbook Section 1600 - Consolidated Financial Statements. These new sections establish standards for the preparation of consolidated financial statements. Sections 1601 and 1602 are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning April 1, 2011. Early adoption of these sections is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these new sections to have a material impact on its consolidated financial position or results of operations unless transactions occur.

Adoption of New Accounting Policies

Effective April 1, 2009, the Company adopted the following new accounting standards.

Joint Venture

The Company's 50% interest in the SQM JV, which is subject to joint control, is consolidated on a proportionate basis whereby the Company includes in these consolidated financial statements its proportionate share of the assets, liabilities, revenues, and expenses of the joint venture.

Transaction Costs

The Company's transaction costs that are directly attributable to the bank debt financing are amortized using the effective interest method over the life of the debt. The unamortized portion of the costs is shown as a reduction of bank loans.

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

2. Significant Accounting Policies - continued

Adoption of New Accounting Policies - continued

Financial Instruments

In June 2009, the CICA amended Section 3862 - Financial Instruments - Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

The three levels of fair value hierarchy under Section 3862 are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

With respect to all of its financial instruments (except for due from related parties), the Company estimates that the fair value of these financial instruments approximates the carrying values at March 31, 2010, March 31, 2009, and September 31, 2008, respectively, and as such they are classified within Level 1 of the fair value hierarchy. The fair value of the amount due from related parties is not readily determinable due to the related party nature of the advances.

3. Restricted Cash

As at March 31, 2010, March 31, 2009, and September 30, 2008, the Company had the following restricted cash balances:

	March 31, 2010	March 31, 2009	September 30, 2008
Notes payable deposits	\$ 13,819	\$ 553	\$ -

Notes payable is a form of cheque, which defers the payment until the due date for redeeming the note. According to the notes payable agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for notes payable which totaled \$13,813 as of March 31, 2010 (March 31, 2009 - \$553; September 30, 2008 - \$Nil). The restrictions on the deposited cash will be released between April 2010 and December 2010, when the notes payable are redeemed.

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Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

4. Prepayments, Deposits and Other Assets

	March 31, 2010	March 31, 2009	September 30, 2008
Current:			
Prepayments for inventory	\$ 25,687	\$ 30,488	\$ 25,817
Prepayments for transportation services	328	95	357
Deposits for the supply of utilities	671	228	224
Deposits on obtaining sales contracts	899	-	777
VAT receivable	2,181	1,696	3,711
Other receivables and deposits	977	1,062	973
Prepayments, deposits and other assets – current	\$ 30,743	\$ 33,569	\$ 31,859
Long Term:			
Prepayments for construction costs	\$ 132	\$ 443	\$ 5,485
Prepayments for machinery	659	998	1,380
Prepayments for land use right	113	-	-
Prepayments, deposits and other assets – long term	\$ 904	\$ 1,441	\$ 6,865

5. Inventory

	March 31, 2010	March 31, 2009	September 30, 2008
Raw materials	\$ 14,726	\$ 35,744	\$ 66,313
Finished goods	5,765	12,182	11,795
Packing and other materials	308	199	124
Goods in transit	99,346	34,268	198
Work in progress	36	-	-
	\$ 120,181	\$ 82,393	\$ 78,430

During the period ended March 31, 2010, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (March 31, 2009 – \$Nil; September 30, 2008 – \$Nil). Inventory included in cost of goods sold for the year ended March 31, 2010 was \$206,453 (March 31, 2009 - \$125,194; September 30, 2008 - \$141,508).

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

6. Related Party Balances and Transactions

The Company had the following related party balances:

	March 31, 2010	March 31, 2009	September 30, 2008
Amount due from:			
Beijing Wei De Sen (“BWDS”)	\$ 28	\$ 158	\$ -
Migao New Energy (Sichuan) Co. Ltd. (“MNEC”)	\$ -	\$ -	\$ 36

During the period ended March 31, 2010, the Company paid an excess of \$28 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil) to BWDS for the cost of motor vehicles it previously purchased on behalf of the Company. During the period ended March 31, 2009, the Company prepaid \$158 (September 30, 2008 - \$Nil) to BWDS for import agency fees. During the period 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.

Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”) contributed administrative services to the Company and because the cost of these services being immaterial, the values of these contributed services were not recognized in the financial statements. In addition, LYEDC has provided corporate guarantees on \$5,952 of the Company’s short-term bank loans outstanding as of March 31, 2010 (note 10).

BWDS, MNEC, and LYEDC are all controlled by an officer and director of Migao.

During the period ended March 31, 2010, an officer and director of the Company forgave his salary of \$100 (March 31, 2009 - \$50; September 30, 2008 - \$101). The forgiven salary has been included in the Company’s contributed surplus.

7. Joint Venture

During the year ended March 31, 2010, the Company contributed cash of \$5,940 (US\$ 5,500) (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil) in return for 50% interest in the SQM JV. As at March 31, 2010, the Company had contributed in excess of SQM’s contribution and this advanced funding is shown on the balance sheet as due from Joint venture partner of \$1,270 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil).

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

7. Joint Venture - continued

As of March 31, 2010, March 31, 2009, and September 30, 2008, the Company's 50% share of the assets and liabilities of the SQM JV are as follows:

	March 31, 2010	March 31, 2009	September 30, 2008
Cash and cash equivalents	\$ 2,689	\$ -	\$ -
Other non-cash current assets	410	-	-
	3,099	-	-
Plant and equipment	30	-	-
Construction in progress	227	-	-
Land use rights	1,083	-	-
Proportionate share of assets	\$ 4,439	\$ -	\$ -
Accounts payable and accrued liabilities	\$ 150	\$ -	\$ -
Proportionate share of liabilities	\$ 150	\$ -	\$ -

As of March 31, 2010, March 31, 2009, and September 30, 2008, the Company's 50% share of the results of operations and cash flows of the SQM JV are as follows:

	March 31, 2010	March 31, 2009	September 30, 2008
Pre-operating costs	\$ 31	\$ -	\$ -
Proportionate share of net loss for the period	\$ (31)	\$ -	\$ -
Cash flows from operating activities	\$ (1,280)	\$ -	\$ -
Cash flows from investing activities	\$ (1,728)	\$ -	\$ -
Cash flows from financing activities	\$ 5,940	\$ -	\$ -

The Company's 50% share of the commitments which relates to capital expenditure as at March 31, 2010 totaled to approximately \$1.3 million (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil)

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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8. Plant and Equipment

	March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 32,066	\$ 3,201	\$ 28,865
Machinery and equipment	32,870	6,854	26,016
Vehicles	1,343	747	596
Office equipment	619	348	271
	\$ 66,898	\$ 11,150	\$ 55,748
	March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 31,887	\$ 2,619	\$ 29,268
Machinery and equipment	27,529	5,832	21,697
Vehicles	743	310	433
Office equipment	1,456	707	749
	\$ 61,615	\$ 9,468	\$ 52,147
	September 30, 2008		
	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 period ended March 31, 2010 was \$3,762 (March 31, 2009 - \$1,847; September 30, 2008 - \$2,328) and is included in cost of goods sold and general and administrative expense.

During the period ended March 31, 2010, Sichuan Migao, Guangdong Migao, and Liaoning Migao were approved and paid by the local tax authorities for value-added tax refunds on the purchases of domestic equipment for a total of \$533, \$441, and \$435 (RMB 3.3 million, RMB 2.9 million, and RMB 2.4 million) (March 31, 2009 - \$228 or RMB 1.3 million, \$Nil, and \$Nil; September 30, 2008 - \$Nil), respectively.

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Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

8. Plant and Equipment - continued

During the period ended September 30, 2008, Guangdong Migao and Sichuan Migao were approved by the local tax authority for tax credits totaling \$272 (RMB 1.8 million) and \$105 (RMB 0.7 million), respectively, on purchases of domestic equipment. Also in that period, Changchun Migao was approved by the local tax authorities for value-added tax refunds on purchases of domestic equipment of \$327 (RMB 2.2 million).

These credits and value-added tax refunds were recorded as a reduction of the cost of the related equipment and the tax credits were applied against profit taxes levied to these subsidiaries.

9. Land Use Rights

	March 31, 2010	March 31, 2009	September 30, 2008
Land use rights	\$ 20,306	\$ 25,720	\$ 21,501
Less: accumulated amortization	920	658	424
	\$ 19,386	\$ 25,062	\$ 21,077

As of March 31, 2010, the Company had fourteen land leases from the Chinese government plus an interest in a joint venture holding one land lease. During the year ended March 31, 2010, Sichuan Migao had sold one of its land leases to the SQM JV at the carrying value which approximates fair value. All land leases have terms of fifty years.

Amortization expense for the period ended March 31, 2010 was \$451 (March 31, 2009 - \$149; September 30, 2008 - \$143) and is included in general and administrative expense.

As of March 31, 2010, the Company had not obtained the land use right certificates for four (March 31, 2009 - five; September 30, 2008 - six) of the land leases and approximately \$546 (March 31, 2009 - \$677; September 30, 2008 - \$4,118) 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.

10. Loans

At March 31, 2010, the Company has short-term bank loans outstanding totaling \$40,831 (March 31, 2009 - \$20,745; September 30, 2008 - \$13,855) for working capital purposes.

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

10. Loans - continued

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Year End</u>	<u>Secured by</u>
\$ 1,488	Aug. 10, 2010	90% of prime rate in China ("PC")	4.78%	two land use rights of Sichuan Migao
\$ 1,488	Oct. 19, 2010	PC	5.31 %	corporate guarantee from Sichuan Migao
\$ 1,190	Aug. 12, 2010	90% of PC	4.78%	two land use rights of Sichuan Migao
\$ 2,976	Sept. 17, 2010	90% of PC	4.78%	N/A
\$ 2,976	May 31, 2010	PC	5.31%	corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
\$ 2,976	June 10, 2010	PC	5.31%	certain buildings and land use rights in Liaoning Migao, and personal guarantee from the CEO of the Company
\$ 2,976	June 22, 2010	PC	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and personal guarantee from the CEO of the Company
\$ 2,976	June 22, 2010	95% of PC	5.04%	corporate guarantee from Sichuan Migao
\$ 3,720	Sept. 27, 2010	PC	5.31%	corporate guarantee from Sichuan Migao
\$ 3,720	Mar. 4, 2011	90% of PC	4.78%	corporate guarantee from Sichuan Migao
\$ 6,994	March 1, 2011	90% of PC	4.78%	certain buildings and one land use right of Sichuan Migao, and corporate guarantee from Guangdong Migao
\$ 7,440	July 1, 2010	90% of PC	4.78%	corporate guarantee from Guangdong Migao
<u>\$ 40,920</u>				
511	Other Loans			
<u>(600)</u>	Transaction Costs			
\$ 40,831				

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Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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10. Loans - continued

During the year ended March 31, 2010, H.K. Migao has engaged a Canadian based investment bank as its exclusive financial advisor in connection with a bank debt financing for the Company. In accordance with the agreement with the investment bank, the Company is required to pay a fee equal to 1.5% of the gross proceeds raised. Total lines of credit of \$48,641 (RMB 317.3 million) relating to the bank debt financing were approved and the Company has started withdrawing from the lines of credit. As such, the total transaction costs are \$729 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil). As at March 31, 2010, the Company has recorded \$600 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil) as unamortized transaction costs and \$129 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil) as amortization of transaction costs.

The transaction costs related to the loans withdrawn from the lines of credit are accreted using effective interest rates of between 6.33% and 6.86%. Amortization of the transaction costs related to the unused portion of the lines of credit will commence when the loans are withdrawn. The carrying value of all the bank loans approximates fair value due to the short term nature of the loans. Total carrying value of the pledged assets was \$5,346 (RMB 36.0 million) as of March 31, 2010 (March 31, 2009 - \$1,338 or RMB 7.3 million; September 30, 2008 - \$5,099 or RMB 32.9 million).

Total interest paid during the period ended March 31, 2010 was \$1,594 (RMB 10.0 million) (March 31, 2009 - \$601 or RMB 3.3 million; September 30, 2008 - \$445 or RMB 3.2 million). Total interest subsidy received by the Company during the period ended March 31, 2010 was \$126 (March 31, 2009 - \$188; September 30, 2008 - Nil).

As of March 31, 2010, the Company had a \$86,645 or RMB 582.3 million (March 31, 2009 - \$7,376 or RMB 40.0 million; September 30, 2008 - \$13,855 or RMB 89.5 million) line of credit arrangement in place, of which \$31,992 or RMB 215.0 million (March 31, 2009 - \$Nil; September 30, 2008 - \$13,855 or RMB 89.5 million) has been withdrawn.

11. 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)	111,300	454
Fair value of underwriters' compensation options (i)	-	253
Fair value of warrants issued (i)	-	(93)
Exercise of warrants (ii)	2,615,133	10,116
Fair value of warrants exercised (ii)	-	2,048
Exercise of stock options (iii)	315,000	898
Fair value of stock options exercised (iii)	-	441

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For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

11. Share Capital - continued

(a) Issued common shares - continued	Number of Shares	Amount
Issued pursuant to a private placement (iv)	3,593,750	28,750
Share issuance costs (iv)	-	(2,272)
Balance – September 30, 2008	43,675,611	94,608
Issued on exercise of underwriters' compensation options (v)	120,500	500
Fair value of underwriters' compensation options (v)	-	282
Fair value of warrants issued (v)	-	(35)
Exercise of warrants (vi)	2,663,550	14,117
Fair value of warrants exercised (vi)	-	4,959
Balance – March 31, 2009	46,459,661	114,431
Issued pursuant to a private placement (vii)	5,681,000	40,335
Share issuance costs (vii)	-	(2,536)
Balance – March 31, 2010	52,140,661	\$ 152,230

(i) During the year ended September 30, 2008, a total of 111,300 underwriters' compensation options were exercised at an average price of \$4.08 per option. They consisted of one common share and one-half common share purchase warrant. The fair value of these options was estimated at the grant date using the Black-Scholes option pricing model for a weighted average value of \$2.27 per option. The warrants issued on the exercise of these options had a weighted average fair value of \$1.68 per warrant with the following weighted average assumptions: dividend yield 0%; risk-free interest rate 3.06%; expected volatility 97%; and expected life of 0.73 years.

(ii) During the year ended September 30, 2008, a total of 2,615,133 common share purchase warrants were exercised with an average exercise price of \$3.87. The weighted average fair value at the grant date, estimated using the Black-Scholes option pricing model, of these warrants was \$0.78 per warrant using the following weighted average assumptions: dividend yield 0%; risk-free interest rate 4.01%; expected volatility 70%; and expected life of 2 years.

(iii) During the year ended September 30, 2008, 315,000 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 the grant date, estimated using the Black-Scholes option pricing model, 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.

(iv) On March 13, 2008, the Company completed a public offering of 3,593,750 common shares priced at \$8.00 per share. Pursuant to the Underwriting Agreement, the Company paid the underwriters an underwriting commission of \$0.46 per share, reflecting a commission of 5.75%. In addition to the underwriting commission, the Company paid \$618 in total for expenses incurred on this private placement.

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Notes to Consolidated Financial Statements

For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
(in thousands of Canadian dollars, except per share amounts)

11. Share Capital - continued

(a) Issued common shares - continued

(v) During the six months ended March 31, 2009, a total of 120,500 underwriters' compensation options were exercised at an average price of \$4.15 per option. They consisted of one common share and one-half common share purchase warrant. The fair value of these options was estimated at the grant date using the Black-Scholes option pricing model for a weighted average value of \$2.34 per option. The warrants issued on the exercise of these options had a weighted average fair value of \$0.59 per warrant with the following weighted average assumptions: dividend yield 0%; risk-free interest rate 1.26%; expected volatility 97%; and expected life of 0.07 years.

(vi) During the six months ended March 31, 2009, a total of 2,663,550 common share purchase warrants were exercised with an average exercise price of \$5.30. The weighted average fair value at the grant date, estimated using the Black-Scholes option pricing model, of these warrants was \$1.86 per warrant.

(vii) On December 10, 2009, the Company completed a bought deal public offering of 5,681,000 common shares priced at \$7.10 per share. Pursuant to the Underwriting Agreement, the Company paid the agents an underwriting commission of \$2,017, reflecting a commission of 5% of the gross proceeds raised in the offering. In addition to the underwriting commission, the Company paid \$519 in total for expenses incurred on this public offering.

(c) Contributed surplus

	Amount
Balance - September 30, 2007	\$ 8,551
Fair value of exercised underwriters' compensation options	(253)
Fair value of warrants issued on the exercise of underwriters' compensation options	93
Stock-based compensation expense	1,888
Fair value of warrants exercised	(2,048)
Fair value of stock options exercised	(441)
Forgiven officer's salaries (<i>note 6</i>)	101
Balance - September 30, 2008	7,891
Fair value of exercised underwriters' compensation options	(282)
Fair value of warrants issued on the exercise of underwriters' compensation options	35
Stock-based compensation expense	1,148
Fair value of warrants exercised	(4,959)
Forgiven officer's salaries (<i>note 6</i>)	50
Balance - March 31, 2009	3,883
Stock-based compensation expense	1,719
Forgiven officer and director's salaries (<i>note 6</i>)	100
Balance - March 31, 2010	\$ 5,702

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For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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11. 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 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 year	515,000	9.51
Exercised during the year	(315,000)	2.85
Outstanding – September 30, 2008	1,385,000	5.78
Expired during the period	(30,000)	8.46
Outstanding – March 31, 2009	1,355,000	\$ 5.72
Granted during the period	165,000	6.40
Outstanding – March 31, 2010	1,520,000	\$ 5.80

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

As of March 31, 2010

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	750,000	1.13	750,000	\$2.85
\$7.69	60,000	2.25	40,000	\$7.69
\$8.46	30,000	2.25	20,000	\$8.46
\$9.93	40,000	2.75	26,667	\$9.93
\$9.48	475,000	3.17	191,666	\$9.48
\$6.40	165,000	9.00	NIL	N/A
\$5.80	1,520,000	2.73	1,028,333	\$4.57

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For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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11. Share Capital - continued

(d) Stock options - continued

During the period ended March 31, 2010, 165,000 options were issued to employees, officers, and directors of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$6.40 per common share. These options have vesting periods of up to three years and an exercise period of up to ten years, expiring on April 26, 2019. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$5.70 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 3.34%; expected volatility 96%; and expected life of 10 years. Stock-based compensation expense on these options for the period ended March 31, 2010 was \$535 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil).

During the period 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 vested immediately and the balance of the options have vesting periods of up to three years and an exercise period of 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 period ended March 31, 2010 was \$1,078 (March 31, 2009 - \$982; September 30, 2008 - \$1,096).

For the period ended March 31, 2010, total stock-based compensation expense on the options granted prior to the year ended September 30, 2008 was \$106 (March 31, 2009 - \$166; September 30, 2008 - \$792).

(e) Warrants

As at March 31, 2010, March 31, 2009, and September 30, 2008, the following share purchase warrants were outstanding:

March 31, 2009	Issued	Exercised	Expired	March 31, 2010	Exercise Price	Expiry Date
-	-	-	-	-	\$ N/A	N/A

September 30, 2008	Issued	Exercised	Expired	March 31, 2009	Exercise Price	Expiry Date
2,603,300	60,250	2,663,550	-	-	\$ 5.30	February 22, 2009

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11. Share Capital - continued

(e) Warrants - continued

September 30, 2007	Issued	Exercised	Expired	September 30, 2008	Exercise Price	Expiry Date
2,337,333	2,931	2,340,264	-	-	\$ 3.70	May 18, 2008
2,825,450	52,719	274,869	-	2,603,300	\$ 5.30	February 22, 2009
5,162,783	55,650	2,615,133	-	2,603,300		

(f) Underwriters' Compensation Options

As at March 31, 2010, March 31, 2009, and September 30, 2008, the following underwriters' compensation options were outstanding:

March 31, 2009 (outstanding and exercisable)	Issued	Exercised	Expired	March 31, 2010 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
-	-	-	-	-	\$ N/A	N/A

September 30, 2008 (outstanding and exercisable)	Issued	Exercised	Expired	March 31, 2009 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
120,500	-	120,500	-	-	\$ 4.15	-

September 30, 2007 (outstanding and exercisable)	Issued	Exercised	Expired	September 30, 2008 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
5,862	-	5,862	-	-	\$ 2.85	-
225,938	-	105,438	-	120,500	\$ 4.15	0.40
231,800	-	111,300	-	120,500	\$ 4.15	0.40

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12. 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 March 31, 2010, the total paid in capital of the Company's PRC entities is \$85,885 (RMB 577.2 million) (March 31, 2009 - \$99,508 or 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 funds accumulated by the Company as at March 31, 2010 was \$12,794 (RMB 86.0 million) (March 31, 2009 - \$12,199 or RMB 66.2 million; September 30, 2008 - \$5,432 or RMB 38.1 million).

13. Accumulated Other Comprehensive (Loss) Income

	March 31, 2010	March 31, 2009	September 30, 2008
Balance – beginning of period	\$ 44,747	\$ 12,049	\$ (7,096)
Unrealized foreign currency translation (losses) gains during the period	(50,953)	32,698	19,145
Balance – end of period	\$ (6,206)	\$ 44,747	\$ 12,049

14. Income Tax

The components of income before income taxes are as follows:

	March 31, 2010	March 31, 2009	September 30, 2008
Pre-tax (loss) income from operations:			
Canada	\$ (4,639)	\$ (2,438)	\$ (4,133)
Foreign - China	48,678	29,434	34,211
	\$ 44,039	\$ 26,996	\$ 30,078

The provision for income taxes consists of the following:

	March 31, 2010	March 31, 2009	September 30, 2008
Income taxes for operations:			
Current			
Foreign - China	\$ 6,325	\$ 3,027	\$ 2,463
Future			
Foreign - China	\$ (574)	\$ (693)	\$ 312
	\$ 5,751	\$ 2,334	\$ 2,775

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14. Income Tax - continued

The Subsidiaries are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and various local income tax laws. Pursuant to the relevant laws and regulations in the PRC, the Subsidiaries are subject to income tax at effective rates of 15% to 25% on income as reported in their statutory financial statements. The operating Subsidiaries are entitled to a full exemption from PRC income tax for two years starting from their first profitable year and a 50% exemption from PRC income tax for three years starting two years after the first profitable year.

Each subsidiary maintains a December 31st year end for tax purposes. Sichuan Migao received a full exemption from tax for the years ended December 31, 2004 and 2005 having incurred a loss in its first year of operations being December 31, 2003. Sichuan Migao also received a 50% exemption from tax for the years ended December 31, 2006, 2007, and 2008. Guangdong Migao received a full exemption from tax for the years ended December 31, 2005 and 2006 having incurred a loss in its first year of operations being December 31, 2004. Guangdong Migao also received a 50% exemption from tax for the years ended December 31, 2007, 2008, and 2009. Liaoning Migao received a full exemption from tax for the years ending December 31, 2006 and 2007 having incurred a loss in the first year of operations being December 31, 2005. Liaoning Migao also received a 50% exemption from tax for the years ended December 31, 2008 and 2009. Changchun Migao received full exemption from tax for the years ended December 31, 2008 and 2009. Shanghai Migao is expected to receive full exemption from tax for the years ending December 31, 2010 and 2011. As a result of their operating results, the Subsidiaries will be eligible for the 50% exemption from tax as follows: Liaoning Migao for the years ending December 31, 2010; Changchun Migao for the years ending December 31, 2010 through 2012; and Shanghai Migao for the years ending December 31, 2012 through 2014.

The Company (legal parent) is governed by the Income Tax Act of Canada. It is not anticipated to incur income taxes as no income is to be generated.

Income tax expense varies from the amount by applying the combined Canadian federal and provincial tax rate of 32.5% (2009 – 33.0%; 2008 – 34.15%) to income before income taxes as follows:

	March 31, 2010	March 31, 2009	September 30, 2008
Pre-tax income:	\$ 44,039	\$ 26,996	\$ 30,078
Income taxes at combined Canadian tax rate	\$ 14,313	\$ 8,909	\$ 10,272
(Decrease) increase in income taxes resulting from:			
Lower tax rates on earnings of PRC subsidiaries	(9,112)	(6,755)	(8,999)
Effects of changes in temporary differences not recognized	228	(175)	(766)
Effect of reduction in statutory rate and other adjustments	66	(132)	355
Non-deductible expenses	559	379	644
Change in valuation allowance	(303)	108	1,269
	\$ 5,751	\$ 2,334	\$ 2,775

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For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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14. Income Tax - continued

A summary of the future income tax assets and liabilities are as follows:

	March 31, 2010	March 31, 2009	September 30, 2008
Future income tax assets:			
Plant and equipment and land use rights	\$ 774	\$ 979	\$ 488
Share issue costs	989	814	1,318
Other timing differences	822	394	90
Inventory	1,190	378	-
Non-deductible management fees	-	398	-
Loss carryforwards	2,285	2,406	2,256
	6,060	5,369	4,152
Less: Valuation allowance	(3,372)	(3,682)	(3,574)
Total future income tax assets	2,688	1,687	578
Less: future income tax assets – current	1,859	(636)	(60)
Future income tax assets – long term	\$ 829	\$ 1,051	\$ 518
Future income tax liabilities:			
Plant and equipment and land use rights	\$ 151	\$ 375	\$ -
Unrecognized revenue	523	74	-
Inventory	256	27	-
Other timing differences	352	221	420
Total future income tax liabilities	1,282	697	420
Less: future income tax liabilities - current	1,131	322	420
Future income tax liabilities – long term	\$ 151	\$ 375	\$ -

At March 31, 2010, the Company has approximately \$9,142 (March 31, 2009 - \$8,294; September 30, 2008 - \$7,778) of non-capital loss carry-forwards in Canada. The utilization of the losses is uncertain therefore, a valuation allowance has been applied and no future income tax asset is set up for these losses. These losses expire as follows:

2014	\$ 34
2015	147
2016	706
2027	2,656
2028	3,517
2029	545
2030	<u>1,537</u>
Total	<u>\$ 9,142</u>

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15. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per common share for the year ended March 31, 2010, period ended March 31, 2009, and year ended September 30, 2008:

	March 31, 2010	March 31, 2009	September 30, 2008
Numerator:			
Income attributable to common shareholders – basic and diluted	\$ 38,288	\$ 24,662	\$ 27,303
Denominator:			
Weighted-average common shares outstanding - basic	48,125,050	44,381,008	40,658,089
Effect of dilutive securities:			
Warrants	-	-	1,730,755
Stock options	471,309	322,835	614,824
Underwriters' compensation options	-	5,130	96,056
Weighted-average common shares outstanding - diluted	48,596,359	44,708,973	43,099,724
Basic earnings per common share	\$ 0.80	\$ 0.56	\$ 0.67
Diluted earnings per common share	\$ 0.79	\$ 0.55	\$ 0.63

For the period ended March 31, 2010, approximately 770,000 potentially dilutive stock options were excluded from the computation of weighted-average number of diluted common shares outstanding, as the applicable exercise prices were greater than the average market price of the Company's common shares for the period.

For the period ended March 31, 2009, approximately 605,000 potentially dilutive stock options were excluded from the computation of weighted-average number of diluted common shares outstanding, as the applicable exercise prices were greater than the average market price of the Company's common shares for the period.

For the year ended September 30, 2008, approximately 575,000 potentially dilutive stock options were excluded from the computation of weighted-average number of diluted common shares outstanding, as the applicable exercise prices were greater than the average market price of the Company's common shares for the period.

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16. Segmented Information

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

Geographical information:

March 31, 2010	Canada		China		Total
Sales from operations	\$	-	\$	269,107	\$ 269,107
Net (loss) income	\$	(4,639)	\$	42,927	\$ 38,288
Total assets	\$	6,173	\$	338,348	\$ 344,521
Plant and equipment, land use rights and construction in progress	\$	-	\$	76,292	\$ 76,292
March 31, 2009	Canada		China		Total
Sales from operations	\$	-	\$	161,484	\$ 161,484
Net (loss) income	\$	(2,438)	\$	27,100	\$ 24,662
Total assets	\$	1,188	\$	274,004	\$ 275,192
Plant and equipment, land use rights and construction in progress	\$	-	\$	93,226	\$ 93,226
September 30, 2008	Canada		China		Total
Sales from operations	\$	-	\$	187,028	\$ 187,028
Net (loss) income	\$	(4,133)	\$	31,436	\$ 27,303
Total assets	\$	845	\$	208,549	\$ 209,394
Plant and equipment, land use rights and construction in progress	\$	-	\$	65,652	\$ 65,652

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17. Commitments

Purchase commitments dominated in RMB for raw materials and supplies for the next twelve months in the amount of approximately \$92.3 million (RMB 620.3 million) exist as of March 31, 2010 (March 31, 2009 - \$31.0 million or RMB 168.0 million; September 30, 2008 - \$23.5 million or RMB 151.7 million). Purchase commitments dominated in US\$ for finished goods in the amount of approximately \$3.3 million (US\$ 3.3 million) exist as of March 31, 2010 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil). These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$2.0 million (RMB 13.7 million) exist as of March 31, 2010 (March 31, 2009 - \$6.3 million or RMB 34.1 million; September 30, 2008 - \$10.4 million or RMB 66.9 million). These contracts are entered into in the normal course of business.

Commitment to contribute cash in return for interest in the SQM JV in the amount of \$4.6 million (US\$4.5 million) exists as of March 31, 2010 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil). The joint venture contract was entered into in the normal course of business.

The Company signed an office lease on August 14, 2006. The term of the lease is five years from October 1, 2006. During the period ended March 31, 2010, the Company expanded its office space and signed a new office lease on October 1, 2009. The term of the new lease is five years from October 1, 2009. The lease obligations are reflected in the following table on a fiscal year basis.

2011	\$ 105
2012	105
2013	105
2014	<u>53</u>
Total	<u>\$ 368</u>

18. 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 significant amount of debt for working capital purposes and therefore net earnings generated from operations are not entirely 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 10, neither the Company nor any of its Subsidiaries are subject to externally imposed capital requirements.

19. 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, which will affect the Company's income or the value of its holding of financial instruments.

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19. Financial Instruments and Risk Management - continued

Market Risk - continued

Foreign currency risk

The Company's global operations expose it to foreign currency fluctuations. Revenues and related expenses generated from the Company's Chinese subsidiaries are generally denominated in Chinese Renminbi ("RMB"). Head office expenditures are generally denominated in C\$.

Therefore, the Company's primary currencies include RMB and C\$. The Consolidated Statements of Operations of the Company's global operations are translated into C\$ at the average exchange rates in each applicable period. To the extent the C\$ strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into C\$ results in reduced revenues, operating expenses and net income for the Company's international operations. Similarly, the Company's revenues, operating expenses and net income will increase for its international operations if the C\$ weakens against foreign currencies. The Company cannot predict the effect foreign exchange fluctuations will have on its results going forward. However, if there is an adverse change in foreign exchange rates versus the C\$, it could have a material effect on other comprehensive income.

At March 31, 2010, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$55,263 (March 31, 2009 - \$40,831; September 30, 2008 - \$16,209), restricted cash of \$13,819 (March 31, 2009 - \$553; September 30, 2008 - \$Nil), accounts receivable of \$36,649 (March 31, 2009 - \$20,477; September 30, 2008 - \$8,440), other receivables of \$2,818 (March 31, 2009 - \$2,426; September 30, 2008 - \$4,639), accounts payable and accrued liabilities of \$9,507 (March 31, 2009 - \$7,159; September 30, 2008 - \$10,557), notes payable of \$1,383 (March 31, 2009 - \$533; September 30, 2008 - \$Nil), and bank loans of \$40,920 (March 31, 2009 - \$20,745; September 30, 2008 - \$13,855), which were denominated in RMB. Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded within accumulated 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 \$4,431 (March 31, 2009 - \$3,630; September 30, 2008 - \$488) effect on the other comprehensive income in C\$.

At March 31, 2010, through its wholly-owned subsidiary, H.K. Migao, the Company had cash and cash equivalents of \$4,011 (March 31, 2009 - \$2,220; September 30, 2008 - \$Nil), and accounts payable and accrued liabilities of \$361 (March 31, 2009 - \$Nil; September 30, 2008 - \$Nil), which were denominated in US\$. Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded in the statement of operations. A +/- 10% change in the average exchange rate between C\$/US\$ on the financial instruments would have a \$437 effect on the other comprehensive income in C\$ (March 31, 2009 - \$222; September 30, 2008 - \$Nil).

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19. Financial Instruments and Risk Management - continued

Market Risk - continued

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-term customers. Over the last three years, the Company has not suffered any significant credit related losses with any of its customers.

At March 31, 2010, March 31, 2009, and September 30, 2008, the Company does not consider any of its financial assets to be impaired.

The following tables provide information regarding the ageing of accounts receivable that are past due but which are not impaired as of March 31, 2010, March 31, 2009, and September 30, 2008.

March 31, 2010

Current	90 – 180 days	180 – 365 days	365 days +	Carrying value on the balance sheet
\$31,990	\$3,846	\$289	\$524	\$36,649

March 31, 2009

Current	90 – 180 days	180 – 365 days	365 days +	Carrying value on the balance sheet
\$13,771	\$5,816	\$529	\$361	\$20,477

September 30, 2008

Current	90 – 180 days	180 – 365 days	365 days +	Carrying value on the balance sheet
\$7,368	\$502	\$613	\$115	\$8,598

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*For the year ended March 31, 2010, six months ended March 31, 2009 and year ended September 30, 2008
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19. 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 expects that pas due balances will be fully collectible in the future.

The Company reviews accounts receivable 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 customers 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 accounts receivable represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts and as a result, no allowance has been recorded. As well, deposits by certain customers are often made which also helps to mitigate the risk if 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, 2010, the Company's cash and cash equivalents balance was \$60,221 and working capital balance was \$189,451. As at March 31, 2010, short-term bank loans in the amount of \$40,831 were outstanding under the Company's credit facilities.

20. Other Risk

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 contracts allowing it 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.

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21. Economic Dependence

During the year ended March 31, 2010, two customers comprised 19% and 17% of total revenue and one supplier individually accounted for 10% of total purchases. At March 31, 2010, one customer individually represented 11% of total accounts receivable and one supplier individually represented 16% of total accounts payable. The supplier accounting for 10% of total purchases is not the same as the one representing 16% of total accounts payable.

During the six months ended March 31, 2009, one customer comprised 39% of revenue and one supplier individually accounted for 11% of total purchases. At March 31, 2009, two customers individually represented 14% and 12% of total accounts receivable and one supplier individually represented 15% of total accounts payable. The supplier accounting for 11% of total purchases is not the same as the one representing 15% of total accounts payable.

During the year ended September 30, 2008, one customer comprised 36% of revenue and two suppliers individually accounted for 57% and 10% of total purchases. At September 30, 2008, one customer individually represented 56% of total accounts receivable and one supplier individually represented 10% of total accounts payable. The supplier accounting for 10% of total purchases is not the same as the one representing 10% of total accounts payable.