

Migao Corporation

**Interim Consolidated Financial Statements
First Quarter, Fiscal 2010
Ended June 30, 2009
(Unaudited)**

Migao Corporation

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For the three months ended June 30, 2009

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

	June 30, 2009 <i>(Unaudited)</i>	March 31, 2009 <i>(Audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,435	\$ 42,241
Accounts receivable	61,036	20,477
Prepayments, deposits and other receivables (note 2)	45,982	33,569
Inventory (note 3)	64,901	82,393
Due from related party (note 4)	90	158
Income taxes receivable	229	-
Future income tax assets	569	636
	177,242	179,474
Prepayments and deposits (note 2)	1,203	1,441
Plant and equipment (note 5)	54,174	52,147
Construction in progress	12,822	16,017
Land use rights (note 6)	22,164	25,062
Future income tax assets	958	1,051
	\$ 268,563	\$ 275,192
Liabilities		
Current liabilities		
Bank loans (note 7)	\$ 18,552	\$ 20,745
Accounts payable and accrued liabilities (note 6)	12,140	7,947
Customer deposits	2,900	2,242
Due to related party (note 4)	22	-
Income taxes payable	1,049	2,008
Future income tax liabilities	459	322
	35,122	33,264
Future income tax liabilities	175	375
	35,297	33,639
Shareholders' equity		
Share capital (note 8)	114,431	114,431
Contributed surplus (note 8)	4,473	3,883
Retained earnings (note 9)	88,050	78,492
Accumulated other comprehensive income (note 10)	26,312	44,747
	233,266	241,553
Commitments (note 12)		
Subsequent event (note 14)		
	\$ 268,563	\$ 275,192

Approved on behalf of the Board of Directors
Signed by "Guocai Liu"
Director

Signed by "Keith Attoe"
Director

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

Approved on behalf of the Board of Directors
Signed by “Guocai Liu”

Director

Signed by “Keith Attoe”

Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

For the three months ended June 30, 2009 and 2008
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	June 30, 2009	June 30, 2008
Revenues	\$ 58,928	\$ 49,681
Cost of goods sold (note 5)	44,320	37,361
Gross profit	14,608	12,320
Operating expenses		
Selling	660	2,185
General and administrative (notes 5 and 6)	1,772	1,785
Stock-based compensation (note 8)	565	804
Pre-operating costs	264	250
Finance costs	206	84
	3,467	5,108
Income from operations	11,141	7,212
Other income	52	131
Gain on sale of non-operating subsidiary	-	99
Income before income taxes	11,193	7,442
Provision for income taxes:		
Current	1,539	675
Future	96	-
Net income for the period	9,558	6,767
Retained earnings, beginning of period	78,492	34,191
Retained earnings, end of period	\$ 88,050	\$ 40,959
Income per share:		
Basic	\$ 0.21	\$ 0.16
Diluted	\$ 0.20	\$ 0.15
Weighted average number of common shares outstanding:		
Basic	46,459,661	42,650,696
Diluted	46,947,233	44,703,286

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

For the three months ended June 30, 2009 and 2008

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2009	June 30, 2008
Net income	\$ 9,558	\$ 6,767
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(18,435)	3,861
Comprehensive (loss) income	\$ (8,877)	\$ 10,628

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

For the three months ended June 30, 2009 and 2008

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2009	June 30, 2008
Cash flows from operating activities		
Net income	\$ 9,558	\$ 6,767
Items not affecting cash:		
Amortization	1,209	697
Stock-based compensation	565	804
Gain on sale of non-operating subsidiary	-	(99)
Future income taxes	96	-
Changes in non-cash working capital items:		
Accounts receivable	(42,309)	(3,155)
Prepayments, deposits, and other receivables	(895)	(4,369)
Inventory	(2,945)	(11,477)
Accounts payable and accrued liabilities	2,105	(1,062)
Customer deposits	806	(11,415)
Due from related parties	67	-
Due to related parties	22	-
Income taxes payable	(1,037)	1,070
	(32,758)	(22,239)
Cash flows from investing activities		
Purchase of plant and equipment	(1,358)	(897)
Payment on construction in progress	(2,648)	(1,792)
Payment of land use rights	(3)	(871)
Refund for land use rights	745	-
Value-added tax refunds on plant and equipment	668	-
	(2,596)	(3,560)
Cash flows from financing activities		
Proceeds from bank loans	11,792	7,986
Repayment of bank loans	(12,390)	(2,178)
Issuance of common shares, net	-	24
Proceeds from exercise of underwriters' compensation options	-	447
Proceeds from exercise of warrants	-	7,060
Proceeds from exercise of stock options	-	727
	(598)	14,066

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

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

For the three months ended June 30, 2009 and 2008

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2009	June 30, 2008
Foreign exchange (loss) gain on cash held in foreign currency	\$ (1,854)	\$ 1,450
Decrease in cash and cash equivalents	(37,806)	(10,283)
Cash and cash equivalents, beginning of period	42,241	32,875
Cash and cash equivalents, end of period	\$ 4,435	\$ 22,592

Cash and cash equivalents consist of:

Cash on hand	\$ 2,538	\$ 14,213
Term deposit	40	40
Bank notes	1,857	8,339
	\$ 4,435	\$ 22,592

Total interest paid during the three months ended June 30, 2009 was \$203 (RMB 1.2 million) (June 30, 2008 - \$82 or RMB 0.6 million). Total tax paid during the three months ended June 30, 2009 was \$1,909 (RMB 11.2 million) (June 30, 2008 - \$481 or RMB 3.3 million). Total tax refunded during the three months ended June 30, 2009 was \$Nil (June 30, 2008 - \$764 or RMB 5.3 million). Total interest subsidy received during the period ended June 30, 2009 was \$126 (RMB 0.7 million) (June 30, 2008 - \$Nil).

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

(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 consolidated financial statements of Migao. 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 March 31, 2009. Interim results are not necessarily indicative of the results expected for the fiscal year.

2. Prepayments, Deposits, and Other Receivables

	June 30, 2009 (Unaudited)	March 31, 2009 (Audited)
Current:		
Prepayments for raw materials	\$ 42,221	\$ 30,488
Prepayments for transportation services	304	95
Deposits for the supply of utilities	1,017	228
VAT receivable	1,194	1,696
Other receivables and deposits	1,246	1,062
Prepayments, deposits, and other receivables – current	\$ 45,982	\$ 33,569
Long Term:		
Prepayments for construction costs	\$ 420	\$ 443
Prepayments for machinery	783	998
Prepayments and deposits – long term	\$ 1,203	\$ 1,441

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

3. Inventory

	June 30, 2009 (Unaudited)	March 31, 2009 (Audited)
Raw materials	\$ 53,913	\$ 35,744
Finished goods	10,336	12,182
Packing and other materials	247	199
Raw materials in transit	405	34,268
	\$ 64,901	\$ 82,393

During the quarter, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (March 31, 2009 – Nil).

4. Related Party Balances

As at June 30, 2009 and March 31, 2009, the Company had the following related party balances:

	June 30, 2009 (Unaudited)	March 31, 2009 (Audited)
Amount due from (to):		
Beijing Wei De Sen (“BWDS”)	\$ (22)	\$ 158
Sichuan SQM – Migao Chemical Fertilizer Co., Ltd. (“SQM JV”)	\$ 90	\$ -

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 interim consolidated financial statements. In addition, LYEDC has provided corporate guarantees on \$6,808 (March 31, 2009 - \$7,376) of the Company’s short-term bank loans outstanding as of June 30, 2009.

During the period ended June 30, 2009, the Company paid land transfer taxes of \$90 (June 30, 2008 - \$Nil) on behalf of SQM JV. The Company also purchased raw material from BWDS for \$22 (June 30, 2008 - \$Nil). During the period ended March 31, 2009, the Company prepaid \$158 to BWDS for import agency fees. 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.

BWDS and LYEDC are all controlled by an officer and director of Migao. SQM JV is a joint venture that the Company is in the process of setting up with Sociedad Quimicay Minera de Chile S.A.

During the period ended June 30, 2009, an officer and director of the Company had forgiven his salary of \$25 (June 30, 2008 - \$25). The forgiven salary has been included in the Company’s contributed surplus.

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Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

5. Plant and Equipment

	June 30, 2009 (Unaudited)		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 30,218	\$ 2,741	\$ 27,477
Machinery and equipment	31,630	5,962	25,668
Vehicles	1,348	696	652
Office equipment	692	315	377
	\$ 63,888	\$ 9,714	\$ 54,174
			March 31, 2009 (Audited)
	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

Amortization expense for the three months ended June 30, 2009 was \$979 (June 30, 2008 - \$661) and is included in cost of goods sold and general and administrative expense.

During the period ended June 30, 2009, Sichuan Migao and Liaoning Migao were approved and paid by the local tax authority for value-added tax refund on purchase of domestic equipment of \$1 (RMB 7,672) (June 30, 2008 - \$Nil) and \$667 (RMB 3.9 million) (June 30, 2008 - \$Nil), respectively.

During the period ended June 30, 2008, Guangdong Migao and Changchun Migao were approved and paid by the local tax authorities for value-added tax refunds on the purchases of domestic equipment of \$102 (RMB 0.7 million) and \$327 (RMB 2.2 million), respectively. No such refunds were received in the period ended June 30, 2009.

These value-added tax refunds were recorded as a reduction of the cost of the related equipment.

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Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

6. Land Use Rights

	June 30, 2009 (Unaudited)	March 31, 2009 (Audited)
Land use rights	\$ 22,974	\$ 25,720
Less: accumulated amortization	810	658
	\$ 22,164	\$ 25,062

As of June 30, 2009, the Company had fifteen land leases from the Chinese government with terms of fifty years. Amortization expense for the period ended June 30, 2009 was \$230 (June 30, 2008 - \$36), and is included in general and administrative expense.

As of June 30, 2009, the Company had not obtained the land use right certificates for five (March 31, 2009 – five) of the land leases and approximately \$0.6 million (March 31, 2009 - \$0.7 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 June 30, 2009, the Company has short-term bank loans outstanding totaling \$18,552 (RMB 109 million) (March 31, 2009 - \$20,745 or RMB 112.5 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>
\$ 3,404	June 22, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,404	May 31, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 6,808	Feb. 9, 2010	Fixed	4.78%	corporate guarantees from Sichuan Migao
\$ 3,404	June 22, 2010	95% of prime rate in China ("PC")	5.04%	corporate guarantees from Sichuan Migao
\$ 1,532	June 17, 2010	PC	5.31 %	corporate guarantees from Sichuan Migao, the CEO

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For the three months ended June 30, 2009 and 2008

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(Unaudited)

and the VP of Production of the Company, and inventory

\$ 18,552

7. Bank Loans - continued

The fair value of all the bank loans approximates their total carrying value. Total interest paid during the period ended June 30, 2009 was \$203 (RMB 1.2 million) (June 30, 2008 - \$82 or RMB 0.6 million). Total interest subsidy received by the Company was \$126 (RMB 0.7 million) (June 30, 2008 - \$Nil) as at June 30, 2009.

As of June 30, 2009, the Company has a RMB 150.0 million line of credit arrangement in place, of which RMB 109 million has been withdrawn.

8. Share Capital

(a) Authorized:

Unlimited common shares without par value.

(b) Issued common shares

	Number of Shares	Amount
Balance – March 31, 2009 and June 30, 2009	46,459,661	\$ 114,431

(c) Contributed surplus

	Amount
Balance – March 31, 2009	\$ 3,883
Stock-based compensation expense	565
Forgiven officer and director's salaries (note 4)	25
Balance – June 30, 2009	\$ 4,473

(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.

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Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

8. Share Capital - continued

(d) Stock options - continued

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

	Options	Weighted average exercise price
Outstanding – March 31, 2009	1,355,000	\$ 5.72
Granted during the period	165,000	6.40
Outstanding – June 30, 2009	1,520,000	\$ 5.80

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

As of June 30, 2009

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	750,000	1.88	750,000	\$2.85
\$7.69	60,000	3.00	40,000	\$7.69
\$8.46	30,000	3.00	20,000	\$8.46
\$9.93	40,000	3.50	13,333	\$9.93
\$9.48	475,000	3.92	191,666	\$9.48
\$6.40	165,000	9.75	NIL	N/A
\$5.80	1,520,000	3.48	1,014,999	\$4.50

During the period ended June 30, 2009, 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 June 30, 2009 was \$104 (June 30, 2008 – \$Nil).

For the period ended June 30, 2009, total stock-based compensation expense on the options granted prior to the period ended June 30, 2009 was \$461 (June 30, 2008 - \$804).

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

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 June 30, 2009, the total paid in capital of the Company's PRC entities is \$91,845 (RMB 539.6 million; March 31, 2009 - \$99,508 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 June 30, 2009 was \$11,271 (RMB 66.2 million; March 31, 2009 - \$11,045 or RMB 59.9 million).

10. Accumulated Other Comprehensive Income

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – March 31, 2009	\$ 44,747
Unrealized foreign currency translation losses during the period	(18,435)
Balance – June 30, 2009	\$ 26,312

11. Segmented Information

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

12. Commitments

Purchase commitments for raw materials and supplies in the amount of approximately \$28.5 million (RMB 167.6 million) exist as of June 30, 2009. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$1.5 million (RMB 9.0 million) exist as of June 30, 2009. These contracts are entered into in the normal course of business.

13. Financial Instruments and Risk Management

Market Risk

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2009 and 2008

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

(Unaudited)

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

13. 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 Canadian dollars. Therefore, the Company's primary currencies include RMB and Canadian dollars. The Consolidated Statements of Operations of the Company's global operations are translated into Canadian dollars at the average exchange rates in each applicable period. To the extent the Canadian dollar strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into Canadian dollars results in reduced revenues, operating expenses and net income for the Company's international operations. Similarly, the Company's revenues, operating expenses and net income will increase for its international operations if the Canadian dollar 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 Canadian dollar, it could have a material effect on net income and other comprehensive income.

At June 30, 2009, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$3,936 (March 31, 2009 - \$41,384), accounts receivable of \$61,036 (March 31, 2009 - \$20,477), other receivables of \$2,185 (March 31, 2009 - \$2,426), accounts payable and accrued liabilities of \$11,601 (March 31, 2009 - \$7,159), and bank loans of \$18,552 (March 31, 2009 - \$20,745), which were denominated in RMB. Gains and losses arising upon translation of these amounts into Canadian dollars 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 \$3,696 (March 31, 2009 - \$3,630) effect on the other comprehensive income in Canadian dollars.

Interest rate risk

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

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

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

(Unaudited)

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.

13. Financial Instruments and Risk Management - continued

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 June 30, 2009, the Company does not consider any of its financial assets to be impaired.

As of June 30, 2009, 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
\$48,970	\$7,499	\$4,184	\$383	\$61,036

As of March 31, 2009, 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
\$13,771	\$5,816	\$529	\$361	\$20,477

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.

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

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

(Unaudited)

The carrying amount of financial assets represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts 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 there is any.

13. Financial Instruments and Risk Management - continued

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 June 30, 2009, the Company's cash and cash equivalents balance was \$4,435 (March 31, 2009 - \$42,241) and working capital balance was \$142,120 (March 31, 2009 - \$146,210). As at June 30, 2009, short-term bank loans in the amount of \$18,552 (March 31, 2009 - \$20,745) were outstanding under the Company's credit facilities.

Fair Value

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

14. Subsequent Event

Subsequent to June 30, 2009 and as of August 10, 2009, Liaoning Migao and Sichuan Migao took on new short-term bank loans of approximately \$3,404 (RMB 20.0 million) and \$8,510 (RMB 50.0 million) for working capital purposes, respectively. The terms of the Liaoning Migao RMB 20 million loan are as follows: due June 10, 2010; interest rate at 5.31%; secured by buildings and land use rights. The terms of the Sichuan Migao RMB 50 million loan are as follows: due July 1, 2010; interest rate at 4.779%; guaranteed by Guangdong Migao.