

Migao Corporation

**Interim Consolidated Financial Statements
Second Quarter, Fiscal 2010
Ended September 30, 2009
(Unaudited)**

Migao Corporation

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For the three and six months ended September 30, 2009 and 2008

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)
(unaudited)

	September 30, 2009	March 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 36,242	\$ 41,688
Restricted cash (note 2)	5,521	553
Accounts receivable	20,371	20,477
Prepayments, deposits and other receivables (note 3)	93,163	33,569
Inventory (note 4)	44,983	82,393
Due from related parties (note 5)	156	158
Income taxes receivable	221	-
Future income tax assets	672	636
	201,329	179,474
Prepayments and deposits (note 3)	5,283	1,441
Plant and equipment (note 6)	49,616	52,147
Construction in progress	12,253	16,017
Land use rights (note 7)	20,446	25,062
Future income tax assets	950	1,051
	\$ 289,877	\$ 275,192
Liabilities		
Current liabilities		
Bank loans (note 8)	\$ 41,919	\$ 20,745
Accounts payable and accrued liabilities (note 7)	9,411	7,016
Notes payables (note 2)	6,275	553
Customer deposits	5,747	2,620
Income taxes payable	1,058	2,008
Future income tax liabilities	601	322
	65,011	33,264
Future income tax liabilities	155	375
	65,166	33,639
Shareholders' equity		
Share capital (note 9)	114,431	114,431
Contributed surplus (note 9)	4,890	3,883
Retained earnings (note 10)	97,648	78,492
Accumulated other comprehensive income (note 11)	7,742	44,747
	224,711	241,553
Subsequent event (note 16)		
	\$ 289,877	\$ 275,192

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

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

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Revenues	\$ 67,684	\$ 78,161	\$ 126,612	\$ 127,842
Cost of goods sold (note 6)	53,335	59,057	97,655	96,418
Gross profit	14,349	19,104	28,957	31,424
Operating expenses				
Selling	1,115	1,738	1,775	3,924
General and administrative (notes 6 and 7)	1,556	2,445	3,328	4,230
Stock-based compensation (note 9)	391	593	956	1,397
Pre-operating costs	56	52	320	302
Finance costs	364	208	570	291
	3,482	5,036	6,949	10,144
Income from operations	10,867	14,068	22,008	21,280
Other income (loss)	15	(27)	67	104
Gain (loss) on sale of non-operating subsidiary	-	(2)	-	98
Income before income taxes	10,882	14,039	22,075	21,482
Provision for income taxes:				
Current	1,255	856	2,794	1,531
Future	29	312	125	312
Net income for the period	9,598	12,871	19,156	19,639
Retained earnings, beginning of period	88,050	40,959	78,492	34,191
Retained earnings, end of period	\$ 97,648	\$ 53,830	\$ 97,648	\$ 53,830
Income per share:				
Basic	\$ 0.21	0.32	\$ 0.41	0.46
Diluted	\$ 0.20	0.31	\$ 0.41	0.44
Weighted average number of common shares outstanding:				
Basic	46,459,661	40,813,968	46,459,661	43,165,585
Diluted	46,931,813	41,947,715	46,918,502	44,771,990

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Net income for the period	\$ 9,598	\$ 12,871	\$ 19,156	\$ 19,639
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(18,570)	5,259	(37,005)	9,120
Comprehensive (loss) income	\$ (8,972)	\$ 18,130	\$ (17,849)	\$ 28,759

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Cash flows from operating activities				
Net income	\$ 9,598	\$ 12,871	\$ 19,156	\$ 19,639
Items not affecting cash:				
Amortization	1,016	720	2,225	1,417
Stock-based compensation	391	593	956	1,397
(Loss) gain on sale of non-operating subsidiary	-	2	-	(98)
Future income taxes	29	312	125	312
Changes in non-cash working capital items:				
Accounts receivable	36,771	11,471	(5,539)	8,317
Prepayments, deposits, and other receivables	599	3,262	(297)	(1,108)
Inventory	(37,278)	(31,045)	(40,223)	(42,523)
Accounts payable and accrued liabilities	585	(6,075)	1,066	(7,137)
Notes payables	4,412	-	6,037	-
Customer deposits	2,720	8,740	3,526	(2,675)
Due from related parties	(66)	33	1	33
Due to related parties	(22)	(45)	-	(45)
Income taxes payable	82	(175)	(955)	896
	18,837	664	(13,922)	(21,575)
Cash flows from investing activities				
Purchase of plant and equipment	(4,815)	(4,445)	(6,173)	(5,342)
Proceeds on sale of non-operating subsidiary	-	1,143	-	1,143
Payment on construction in process	(404)	(5,086)	(3,052)	(6,878)
Refund for land use rights	24	1,866	770	1,866
Payment of land use rights	(73)	(1,961)	(76)	(2,832)
Value-added tax refunds on plant and equipment	532	-	1,200	-
	(4,736)	(8,483)	(7,331)	(12,043)
Cash flows from financing activities				
Proceeds from bank loans	25,385	4,764	37,177	12,750
Repayment of bank loans	-	(2,036)	(12,390)	(4,214)
Issuance of common shares, net	-	(90)	-	(65)
Proceeds from exercise of underwriters' compensation options	-	-	-	446
Proceeds from exercise of warrants	-	8	-	7,068

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Cash flows from financing activities - continued				
Proceeds from exercise of stock options	\$ -	\$ -	\$ -	\$ 727
Increase in restricted cash	(4,605)	-	(5,204)	-
	20,780	2,646	19,583	16,712
Foreign exchange (loss) gain on cash held in foreign currency	(1,967)	(569)	(3,776)	881
Increase (decrease) in cash and cash equivalents	32,914	(5,742)	(5,446)	(16,025)
Cash and cash equivalents, beginning of period	3,328	22,592	41,688	32,875
Cash and cash equivalents, end of period	\$ 36,242	\$ 16,850	\$ 36,242	\$ 16,850
Cash and cash equivalents consist of:				
Cash on hand	\$ 14,467	\$ 15,728		
Term deposit	40	40		
Bank notes	21,735	1,082		
	\$ 36,242	\$ 16,850		

Total interest paid during the three and six month periods ended September 30, 2009 was \$360 and \$563 (RMB 2.2 million and RMB 3.4 million) (September 30, 2008 - \$213 or RMB 1.4 million and \$295 or RMB 2.0 million), respectively. Total tax paid during the three and six month periods ended September 30, 2009 was \$1,173 and \$3,082 (RMB 7.3 million and RMB 18.5 million) (September 30, 2008 - \$Nil and \$481 or RMB 3.3 million), respectively. Total tax refunded during the three and six month periods ended September 30, 2009 was \$Nil and \$Nil (September 30, 2008 - \$567 or RMB 4.0 million and \$1,331 or RMB 9.3 million), respectively. Total interest subsidy received during the three and six month periods ended September 30, 2009 was \$Nil and \$126 (RMB Nil and RMB 0.7 million) (September 30, 2008 - \$Nil and \$Nil), respectively.

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 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.

Certain prior-period balances have been reclassified to conform to current period’s presentation and policies.

2. Restricted Cash

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

	September 30, 2009	March 31, 2009
Notes payable deposits	\$ 5,521	\$ 553

During the quarter ended September 30, 2009, the Company was required to deposit cash with China Merchants Bank as pledge for its notes payables. 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 against the notes payables. The restrictions on the deposited cash will be released between December 15, 2009 and March 29, 2010, when the notes payables are redeemed.

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Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

3. Prepayments, Deposits, and Other Receivables

	September 30, 2009	March 31, 2009
Current:		
Prepayments for raw materials	\$ 90,259	\$ 30,488
Prepayments for transportation services	221	95
Deposits for the supply of utilities	725	228
Deposits on obtaining sales contracts	353	-
VAT receivable	668	1,696
Other receivables and deposits	937	1,062
Prepayments, deposits, and other receivables – current	\$ 93,163	\$ 33,569
Long Term:		
Prepayments for construction costs	\$ 313	\$ 443
Prepayments for machinery	4,970	998
Prepayments and deposits – long term	\$ 5,283	\$ 1,441

4. Inventory

	September 30, 2009	March 31, 2009
Raw materials	\$ 36,075	\$ 35,744
Finished goods	8,697	12,182
Packing and other materials	211	199
Raw materials in transit	-	34,268
	\$ 44,983	\$ 82,393

During the three and six months ended September 30, 2009, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (three and six months ended September 30, 2008 – \$Nil).

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

5. Related Party Balances and Transactions

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

	September 30, 2009	March 31, 2009
Amount due from:		
Beijing Wei De Sen ("BWDS")	\$ 29	\$ 158
Sichuan SQM – Migao Chemical Fertilizer Co., Ltd. ("SQM JV")	127	-
	\$ 156	\$ 158

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 and the cost of these services being immaterial, the values of these contributed services were not recognized in the interim consolidated financial statements. In addition, LYEDC has provided corporate guarantees on \$9,420 (March 31, 2009 - \$7,376) of the Company's short-term bank loans outstanding as of September 30, 2009.

During the three and six months ended September 30, 2009, the Company paid land transfer taxes and business incorporation fees of \$37 and \$127 (September 30, 2008 - \$Nil), respectively, on behalf of SQM JV. The Company also paid back \$29 to BWDS for the cost of motor vehicles it previously purchased on behalf of the Company (September 30, 2008 - \$Nil). As at 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 both 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 three and six months period ended September 30, 2009, an officer and director of the Company had forgiven his salary of \$25 and \$50 (September 30, 2008 - \$25 and \$50), respectively. The forgiven salary has been included in the Company's contributed surplus.

6. Plant and Equipment

	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 28,563	\$ 2,834	\$ 25,729
Machinery and equipment	28,956	6,045	22,911
Vehicles	1,335	687	648
Office equipment	645	317	328

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Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

\$ 59,499 \$ 9,883 \$ 49,616

6. Plant and Equipment - continued

				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

Amortization expense for the three and six months ended September 30, 2009 was \$944 and \$1,923 (September 30, 2008 - \$682 and \$1,343), respectively, and is included in cost of goods sold and general and administrative expense.

During the quarter ended September 30, 2009, Sichuan Migao was approved and paid by the local tax authority for value-added tax refund on purchase of domestic equipment of \$532 (RMB 3.3 million) (September 30, 2008 - \$105 or RMB 0.7 million). These value-added tax refunds were recorded as a reduction of the cost of the related equipment.

7. Land Use Rights

	September 30, 2009		March 31, 2009
Land use rights	\$ 21,264	\$	25,720
Less: accumulated amortization	818		658
	\$ 20,446	\$	25,062

As of September 30, 2009, the Company had fifteen land leases from the Chinese government with terms of fifty years. Amortization expense for the three and six months ended September 30, 2009 were \$72 and \$302 (September 30, 2008 - \$38 and \$74), respectively, and is included in general and administrative expense.

As of September 30, 2009, the Company had not obtained the land use right certificates for five (March 31, 2009 – five) of the land leases and approximately \$577 (March 31, 2009 - \$677) 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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

8. Bank Loans

At September 30, 2009, the Company has short-term bank loans outstanding totaling \$41,919 (RMB 297 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>
\$ 6,280	Feb. 9, 2010	Fixed	4.78%	corporate guarantee from Sichuan Migao
\$ 3,140	May 31, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,140	June 10, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 1,413	June 17, 2010	PC	5.31 %	corporate guarantees from Sichuan Migao, the CEO and the VP of Production of the Company, and inventory
\$ 3,140	June 22, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,140	June 22, 2010	95% of PC	5.04%	corporate guarantee from Sichuan Migao
\$ 7,850	July 1, 2010	Fixed	4.78%	corporate guarantee from Guangdong Migao
\$ 1,570	Aug. 10, 2010	90% of prime rate in China ("PC")	4.78%	two land use rights
\$ 1,256	Aug. 12, 2010	90% of PC	4.78%	two land use rights
\$ 3,140	Sept. 17, 2010	Fixed	4.78%	N/A
\$ 7,850	Sept. 27, 2010	PC	5.31%	corporate guarantee from Sichuan Migao
\$ 41,919				

The fair value of all the bank loans approximates their total carrying value. Total carrying value of the security was \$19,724 (RMB 125.6 million) as of September 30, 2009 (September 30, 2008 - \$5,099 or RMB 32.9 million). Total interest paid during the three and six months period ended September 30, 2009 was \$360 and \$563 (RMB 2.2 million and RMB 3.4 million) (September 30, 2008 - \$213 or RMB 1.4 million and \$295 or RMB 2.0 million), respectively. Total interest subsidy received by the Company during the three and six month periods ended September 30, 2009 was \$Nil and \$126 (September 30, 2008 - RMB Nil and RMB 0.7 million), respectively.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

8. Bank Loans - continued

As of September 30, 2009, the Company had a \$57,776 or RMB 368 million (March 31, 2009 - \$7,376 or RMB 40.0 million) line of credit arrangement in place, of which \$42,861 or RMB 273 million (March 31, 2009 - \$Nil) has been withdrawn, which includes notes payables of \$942 or RMB 6.0 million (March 31, 2009 - \$Nil).

9. Share Capital

(a) **Authorized:**

Unlimited common shares without par value.

(b) **Issued common shares**

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

(c) **Contributed surplus**

	Amount
Balance – March 31, 2009	\$ 3,883
Stock-based compensation expense	957
Forgiven officer and director's salaries (<i>note 5</i>)	50
Balance – September 30, 2009	\$ 4,890

(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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2009 and 2008

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

(Unaudited)

9. 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 – September 30, 2009	1,520,000	\$ 5.80

The following table summarizes the weighted average information with respect to the outstanding stock options.

As of September 30, 2009

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	750,000	1.63	750,000	\$2.85
\$7.69	60,000	2.75	40,000	\$7.69
\$8.46	30,000	2.75	20,000	\$8.46
\$9.93	40,000	3.25	13,333	\$9.93
\$9.48	475,000	3.67	191,666	\$9.48
\$6.40	165,000	9.50	NIL	N/A
\$5.80	1,520,000	3.23	1,014,999	\$4.50

During the quarter 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 three and six months ended September 30, 2009 was \$145 and \$249 (September 30, 2008 – \$Nil), respectively.

For the three and six month periods ended September 30, 2009, total stock-based compensation

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For the three and six months ended September 30, 2009 and 2008

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(Unaudited)

expense on the options granted prior to the period ended June 30, 2009 was \$246 and \$707 (September 30, 2008 - \$593 and \$1,397), respectively.

10. 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 September 30, 2009, the total paid in capital of the Company's PRC entities was \$84,722 (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 September 30, 2009 was \$11,635 (RMB 74.1 million; March 31, 2009 - \$11,045 or RMB 59.9 million).

11. 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	(37,005)
Balance – September 30, 2009	\$ 7,742

12. Segmented Information

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

13. Commitments

Purchase commitments for raw materials and supplies in the amount of approximately \$22,803 (RMB 145.2 million) existed as of September 30, 2009. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$892 million (RMB 5.7 million) existed as of September 30, 2009. These contracts are entered into in the normal course of business.

14. Financial Instruments Risks

Market Risk

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 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.

14. Financial Instruments Risks

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 September 30, 2009, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$35,937 (March 31, 2009 - \$40,831), restricted cash of \$5,521 (March 31, 2009 - \$553), accounts receivable of \$20,371 (March 31, 2009 - \$20,477), other receivables of \$685 (March 31, 2009 - \$2,426), accounts payable and accrued liabilities of \$9,231 (March 31, 2009 - \$7,159), notes payable of \$6,275 (March 31, 2009 - \$553), and bank loans of \$41,919 (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 consolidated financial statements are recorded within accumulated other comprehensive income, a component of shareholders' equity. A 10% change in the average exchange rate between CDN\$/RMB on the financial instruments would have a \$509 (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.

Credit Risk

Migao Corporation

Notes to Interim Consolidated Financial Statements

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

(Unaudited)

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.

14. Financial Instruments Risks - continued

Credit Risk – continued

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

As of September 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
\$16,996	\$1,930	\$907	\$538	\$20,371

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.

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

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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.

14. Financial Instruments Risks - 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 September 30, 2009, the Company's cash and cash equivalents balance was \$36,242 (March 31, 2009 - \$41,688) and working capital balance was \$136,318 (March 31, 2009 - \$146,210). As at September 30, 2009, short-term bank loans in the amount of \$41,919 (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, restricted cash, other receivables, bank loans, accounts payable and accrued liabilities and notes payable 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.

15. Other Risks

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.

16. Subsequent Event

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Subsequent to September 30, 2009 and as of November 11, 2009, Guangdong Migao arranged a new short-term bank loan of approximately \$1,570 (RMB 10.0 million) for working capital purposes. The terms of the loan are as follows: due October 19, 2010; interest rate at 5.31%, guaranteed by Sichuan Migao. The short-term bank loan is part of a new centralized working capital line of credit established with one of China's development banks.