

# **Migao Corporation**

**Interim Consolidated Financial Statements  
Third Quarter, Fiscal 2010  
Ended December 31, 2009  
(Unaudited)**

# Migao Corporation

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*For the three and nine months ended December 31, 2009 and 2008*

*(Unaudited)*

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# Migao Corporation

## Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

(unaudited)

	December 31, 2009	March 31, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 128,025	\$ 41,688
Restricted cash (note 2)	14,529	553
Accounts receivable	17,365	20,477
Prepayments, deposits and other assets (note 3)	72,897	33,569
Inventory (note 4)	37,726	82,393
Due from related party (note 5)	29	158
Due from joint venture partner (note 6)	1,309	-
Future income tax assets	1,250	636
	<b>273,130</b>	<b>179,474</b>
<b>Prepayments, deposits, and other assets (note 3)</b>	<b>2,082</b>	<b>1,441</b>
<b>Plant and equipment (note 7)</b>	<b>49,459</b>	<b>52,147</b>
<b>Construction in progress</b>	<b>11,058</b>	<b>16,017</b>
<b>Land use rights (note 8)</b>	<b>18,830</b>	<b>25,062</b>
<b>Future income tax assets</b>	<b>914</b>	<b>1,051</b>
	<b>\$ 355,473</b>	<b>\$ 275,192</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans (note 9)	\$ 40,947	\$ 20,745
Accounts payable and accrued liabilities (note 8)	10,874	7,016
Notes payables (note 2)	14,279	553
Customer deposits	19,682	2,620
Income taxes payable	1,531	2,008
Future income tax liabilities	1,255	322
	<b>88,568</b>	<b>33,264</b>
<b>Future income tax liabilities</b>	<b>146</b>	<b>375</b>
	<b>88,714</b>	<b>33,639</b>
<b>Shareholders' equity</b>		
Share capital (note 10)	152,306	114,431
Contributed surplus (note 10)	5,306	3,883
Retained earnings (note 11)	106,354	78,492
Accumulated other comprehensive income (note 12)	2,793	44,747
	<b>266,759</b>	<b>241,553</b>
	<b>\$ 355,473</b>	<b>\$ 275,192</b>

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 nine months ended	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
<b>Revenues</b>	\$ 67,034	\$ 76,531	\$ 193,646	\$ 204,373
<b>Cost of goods sold (note 7)</b>	51,427	59,218	149,082	155,636
<b>Gross profit</b>	15,607	17,313	44,564	48,737
<b>Operating expenses</b>				
Selling	1,762	1,708	3,537	5,632
General and administrative (notes 7 and 8)	2,804	2,114	6,132	6,344
Stock-based compensation (note 10)	391	592	1,347	1,989
Pre-operating costs	114	128	434	430
Finance costs	523	305	1,093	596
	5,594	4,847	12,543	14,991
<b>Income from operations</b>	10,013	12,466	32,021	33,746
Other income	57	309	124	413
Gain on sale of non-operating subsidiary	-	-	-	98
<b>Income before income taxes</b>	10,070	12,775	32,145	34,257
Provision for income taxes:				
Current	1,262	1,307	4,056	2,838
Future	102	(483)	227	(171)
<b>Net income for the period</b>	8,706	11,951	27,862	31,590
<b>Retained earnings, beginning of period</b>	97,648	53,830	78,492	34,191
<b>Retained earnings, end of period</b>	\$ 106,354	\$ 65,781	\$ 106,354	\$ 65,781
<b>Income per share:</b>				
Basic	\$ 0.18	0.27	\$ 0.60	0.73
Diluted	\$ 0.18	0.27	\$ 0.59	0.71
<b>Weighted average number of common shares outstanding:</b>				
Basic	47,509,411	43,675,611	46,810,850	43,336,212
Diluted	47,965,124	43,883,557	47,283,044	44,439,824

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

## Migao Corporation

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### Interim Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended		For the nine months ended	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
<b>Net income for the period</b>	\$ 8,706	\$ 11,951	\$ 27,862	\$ 31,590
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(4,949)	26,886	(41,954)	36,006
<b>Comprehensive income (loss)</b>	\$ 3,757	\$ 38,837	\$ (14,092)	\$ 67,596

*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)

	For the three months ended		For the nine months ended	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
<b>Cash flows from operating activities</b>				
Net income	\$ 8,706	\$ 11,951	\$ 27,862	\$ 31,590
Items not affecting cash:				
Amortization	1,025	902	3,250	2,319
Stock-based compensation	391	592	1,347	1,989
(Loss) gain on sale of non-operating subsidiary	-	-	-	(98)
Future income taxes	102	(483)	227	(171)
Amortization of deferred transaction costs	47	-	47	-
Changes in non-cash working capital items:				
Restricted cash	(9,222)	-	(14,426)	-
Accounts receivable	2,549	(17,430)	(2,990)	(9,113)
Prepayments, deposits, and other assets	(3,131)	1,166	(3,428)	58
Inventory	27,787	13,421	(12,436)	(29,102)
Accounts payable and accrued liabilities	3,342	(3,978)	4,408	(11,115)
Notes payables	8,226	-	14,263	-
Customer deposits	14,536	(1,389)	18,062	(4,064)
Due from related parties	128	-	129	33
Due to related parties	-	-	-	(45)
Due from joint venture partner	(1,321)	-	(1,321)	-
Income taxes payable	720	525	(235)	1,421
	<b>53,885</b>	5,277	<b>34,759</b>	(16,298)
<b>Cash flows from investing activities</b>				
Purchase of plant and equipment	(1,073)	(2,029)	(7,246)	(7,371)
Proceeds on sale of non-operating subsidiary	-	-	-	1,143
Payment on construction in process	(2,435)	(5,088)	(5,487)	(11,966)
Refund for land use rights	-	-	770	1,866
Payment of land use rights	-	(186)	(76)	(3,018)
Proceeds from sale of land use right	1,069	-	1,069	-
Value-added tax refunds on plant and equipment	460	225	1,660	225
Refund from prepayment for equipment	2,866	-	2,866	-
	<b>887</b>	(7,078)	<b>(6,444)</b>	(19,121)

# Migao Corporation

## Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<b>Dec. 31, 2009</b>	Dec. 31, 2008	<b>Dec. 31, 2009</b>	Dec. 31, 2008
<b>Cash flows from financing activities</b>				
Proceeds from bank loans	<b>1,547</b>	532	<b>38,724</b>	13,282
Repayment of bank loans	<b>(1,392)</b>	-	<b>(13,782)</b>	(4,214)
Issuance of common shares, net	<b>37,876</b>	-	<b>37,876</b>	(65)
Proceeds from exercise of underwriters' compensation options	-	-	-	446
Proceeds from exercise of warrants	-	-	-	7,068
Proceeds from exercise of stock options	-	-	-	727
	<b>38,031</b>	532	<b>62,818</b>	17,244
Foreign exchange (loss) gain on cash held in foreign currency	<b>(1,020)</b>	2,235	<b>(4,796)</b>	3,116
<b>Increase (decrease) in cash and cash equivalents</b>	<b>91,783</b>	966	<b>86,337</b>	(15,059)
<b>Cash and cash equivalents, beginning of period</b>	<b>36,242</b>	16,850	<b>41,688</b>	32,875
<b>Cash and cash equivalents, end of period</b>	<b>\$ 128,025</b>	\$ 17,816	<b>\$ 128,025</b>	\$ 17,816
<b>Cash and cash equivalents consist of:</b>				
Cash on hand	<b>\$ 73,747</b>	\$ 16,527		
Term deposit	<b>40</b>	40		
Bank notes	<b>54,238</b>	1,249		
	<b>\$ 128,025</b>	\$ 17,816		

Total interest paid during the three and nine month periods ended December 31, 2009 was \$546 and \$1,109 (RMB 3.5 million and RMB 7.0 million) (December 31, 2008 - \$300 or RMB 1.7 million and \$595 or RMB 3.7 million), respectively. Total tax paid during the three and nine month periods ended December 31, 2009 was \$1,371 and \$4,452 (RMB 8.8 million and RMB 27.3 million) (December 31, 2008 - \$1,094 or RMB 6.2 million and \$1,575 or RMB 9.5 million), respectively. Total tax refunded during the three and nine month periods ended December 31, 2009 were both \$460 (RMB 3.0 million) (December 31, 2008 - \$Nil and \$1,331 or RMB 9.3 million), respectively. Total interest subsidy received by the Company during the three and nine month periods ended December 31, 2009 was \$Nil and \$126 (RMB Nil and RMB 0.7 million) (December 31, 2008 - \$Nil and \$Nil), respectively.

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

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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## 1. Nature of Operations and Basis of Presentation

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### 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 PRC. The parties agreed that the registered capital of the SQM JV will 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 quarter.

### 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 and the proportionate share of the accounts of its joint venture 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.

### Adoption of New Accounting Policies

Effective December 31, 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.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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### 1. Nature of Operations and Basis of Presentation - continued

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#### Adoption of New Accounting Policies – continued

##### Deferred Transaction Costs

The Company's transaction costs that are directly attributable to the bank debt financing are amortized using the effective interest method. The unamortized portion related to bank loans withdrawn from the lines of credit is shown as a reduction of bank loans. The unamortized portion related to the unused portion of the lines of credit is recorded in prepayments, deposits and other assets.

### 2. Restricted Cash

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

	December 31, 2009	March 31, 2009
Notes payable deposits	\$ 14,529	\$ 553

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During the quarter ended December 31, 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 January 2010 and June 2010, when the notes payables are redeemed.

### 3. Prepayments, Deposits, and Other Assets

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	December 31, 2009	March 31, 2009
Current:		
Prepayments for raw materials	\$ 66,389	\$ 30,488
Prepayments for finished goods	492	-
Prepayments for transportation services	86	95
Deposits for the supply of utilities	741	228
Deposits on obtaining sales contracts	883	-
VAT receivable	1,471	1,696
Other receivables and deposits	2,403	1,062
Deferred transaction costs	432	-
Prepayments, deposits, and other assets – current	\$ 72,897	\$ 33,569

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# Migao Corporation

## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

### 3. Prepayments, Deposits, and Other Assets - continued

	December 31, 2009	March 31, 2009
Long Term:		
Prepayments for construction costs	\$ 116	\$ 443
Prepayments for machinery	1,853	998
Deferred transaction costs	113	-
Prepayments, deposits, and other assets – long term	\$ 2,082	\$ 1,441

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 will pay a fee equal to 1.5% of the gross proceeds raised. As of December 31, 2009, lines of credit of \$48,641 (RMB 317.3 million) relating to the bank debt financing have been finalized and approved. The total transaction costs is \$729. For the quarter ended December 31, 2009, the Company has \$545 as deferred transaction costs, \$137 as a reduction of the bank loans withdrawn, and \$47 as amortization of deferred transaction costs.

### 4. Inventory

	December 31, 2009	March 31, 2009
Raw materials	\$ 19,174	\$ 35,744
Finished goods	8,396	12,182
Packing and other materials	876	199
Raw materials in transit	9,280	34,268
	\$ 37,726	\$ 82,393

During the three and nine months ended December 31, 2009, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (three and nine months ended December 31, 2008 – \$Nil).

### 5. Related Party Balances and Transactions

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

	December 31, 2009	March 31, 2009
Amount due from:		
Beijing Wei De Sen (“BWDS”)	\$ 29	\$ 158

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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### 5. Related Party Balances and Transactions - continued

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During the three and nine months ended December 31, 2009, the Company paid an excess of \$29 to BWDS for the cost of motor vehicles it previously purchased on behalf of the Company. 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.

Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") contributed services to the Company and due to 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 \$9,198 (March 31, 2009 - \$7,376) of the Company's short-term bank loans outstanding as of December 31, 2009 (note 9).

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

During the three and nine months period ended December 31, 2009, an officer and director of the Company had forgiven his salary of \$25 and \$75 (December 31, 2008 - \$25 and \$75), respectively. The forgiven salary has been included in the Company's contributed surplus.

### 6. Joint Venture

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As of December 31, 2009, the Company contributed cash of \$5,940 in return for interest in the SQM JV. At the balance date, 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 \$1,309.

As of December 31, 2009, the Company's 50% share of the assets and liabilities of the SQM JV is as follows:

	December 31, 2009	March 31, 2009
Cash and cash equivalents	\$ 3,235	\$ -
Other non-cash current assets	103	-
	<b>3,338</b>	-
Plant and equipment	1	-
Construction in progress	16	-
Land use rights	1,122	-
<b>Proportionate share of assets</b>	<b>\$ 4,477</b>	<b>\$ -</b>
Accounts payable and accrued liabilities	\$ 48	\$ -
<b>Proportionate share of liabilities</b>	<b>\$ 48</b>	<b>\$ -</b>

# Migao Corporation

## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

### 6. Joint Venture - continued

As of December 31, 2009, the Company's 50% share of the results of operations and cash flows of the SQM JV is as follows:

	December 31, 2009	March 31, 2009
Pre-operating costs	\$ 20	\$ -
<b>Proportionate share of net loss for the period</b>	<b>\$ (20)</b>	<b>\$ -</b>
Cash flows from operating activities	\$ (1,286)	\$ -
Cash flows from investing activities	\$ (1,259)	\$ -
Cash flows from financing activities	\$ 5,940	\$ -

### 7. Plant and Equipment

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 29,262	\$ 3,077	\$ 26,185
Machinery and equipment	28,815	6,463	22,352
Vehicles	1,338	716	622
Office equipment	636	336	300
	<b>\$ 60,051</b>	<b>\$ 10,592</b>	<b>\$ 49,459</b>

  

	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
	<b>\$ 61,615</b>	<b>\$ 9,468</b>	<b>\$ 52,147</b>

Amortization expense for the three and nine months ended December 31, 2009 was \$949 and \$2,872 (December 31, 2008 - \$845 and \$2,188), respectively, and is included in cost of goods sold and general and administrative expense.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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### 7. Plant and Equipment - continued

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During the three and nine months ended December 31, 2009, Sichuan 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 \$460 and \$1,660 (RMB 3.0 million and RMB 10.2 million) (December 31, 2008 - \$225 or RMB 1.3 million and \$330 or RMB 2.0 million), respectively. These value-added tax refunds were recorded as a reduction of the cost of the related equipment.

### 8. Land Use Rights

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	<b>December 31, 2009</b>	March 31, 2009
Land use rights	\$ 19,704	\$ 25,720
Less: accumulated amortization	874	658
	<b>\$ 18,830</b>	<b>\$ 25,062</b>

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As of December 31, 2009, the Company had fourteen land leases from the Chinese government plus an interest in a joint venture holding one additional land lease. During the quarter, Sichuan Migao had sold one of its land leases to the SQM JV at the carrying value. All land leases have terms of fifty years. Amortization expense for the three and nine months ended December 31, 2009 were \$76 and \$378 (December 31, 2008 - \$57 and \$131), respectively, and is included in general and administrative expense.

As of December 31, 2009, the Company had not obtained the land use right certificates for five (March 31, 2009 - five) of the land leases and approximately \$563 (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 nine months ended December 31, 2009 and 2008

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

(Unaudited)

### 9. Bank Loans

At December 31, 2009, the Company has short-term bank loans outstanding totaling \$41,084 (RMB 268 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>
\$ 6,132	Feb. 9, 2010	Fixed	4.78%	corporate guarantee from Sichuan Migao
\$ 3,066	May 31, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,066	June 10, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,066	June 22, 2010	Fixed	5.31%	corporate guarantees from Sichuan Migao, LYEDC, and the CEO of the Company
\$ 3,066	June 22, 2010	95% of Prime rate in China ("PC")	5.04%	corporate guarantee from Sichuan Migao
\$ 7,665	July 1, 2010	Fixed	4.78%	corporate guarantee from Guangdong Migao
\$ 1,533	Aug. 10, 2010	90% of PC	4.78%	two land use rights
\$ 1,226	Aug. 12, 2010	90% of PC	4.78%	two land use rights
\$ 3,066	Sept. 17, 2010	Fixed	4.78%	N/A
\$ 7,665	Sept. 27, 2010	PC	5.31%	corporate guarantee from Sichuan Migao
\$ 1,533	Oct. 19, 2010	PC	5.31 %	corporate guarantees from Sichuan Migao
<b>\$ 41,084</b>				
<b>(137)</b>	<b>Deferred Transaction Costs</b>			
<b>\$ 40,947</b>				

The deferred financing fees are accreted using effective interest rates of between 6.33% and 6.86%. The fair value of all the bank loans approximates their total carrying value. Total carrying value of the security was \$689 (RMB 4.5 million) as of December 31, 2009 (March 31, 2009 - \$1,338 or RMB 7.3 million). Total interest paid during the three and nine months period ended December 31, 2009 was \$546 and \$1,109 (RMB 3.5 million and RMB 7.0 million) (December 31, 2008 - \$300 or RMB 1.7 million and \$595 or RMB 3.7 million), respectively. Total interest subsidy received by the Company during the three and nine month periods ended December 31, 2009 was \$Nil and \$126 (RMB Nil and RMB 0.7 million) (December 31, 2008 - \$Nil and \$Nil), respectively.

As of December 31, 2009, the Company had a \$115,126 or RMB 585.3 million (March 31, 2009 - \$7,376 or RMB 40.0 million) line of credit arrangement in place, of which \$41,084 or RMB 268.0 million (March 31, 2009 - \$Nil) has been withdrawn.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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## 10. Share Capital

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**(a) Authorized:**

Unlimited common shares without par value.

**(b) Issued common shares**

	<b>Number of Shares</b>	<b>Amount</b>
<b>Balance – March 31, 2009</b>	<b>46,459,661</b>	<b>\$ 114,431</b>
Issued pursuant to a private placement (i)	5,681,000	40,335
Share issuance costs (i)	-	(2,460)
<b>Balance – December 31, 2009</b>	<b>52,140,661</b>	<b>\$ 152,306</b>

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(i) 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 5% of the gross proceeds raised in the offering. In addition to the underwriting commission, the Company paid \$443 in total for expenses incurred on this public offering.

**(c) Contributed surplus**

	<b>Amount</b>
<b>Balance – March 31, 2009</b>	<b>\$ 3,883</b>
Stock-based compensation expense	1,348
Forgiven officer and director's salaries (note 5)	75
<b>Balance – December 31, 2009</b>	<b>\$ 5,306</b>

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**(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 nine months ended December 31, 2009 and 2008

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

(Unaudited)

### 10. 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
<b>Outstanding – March 31, 2009</b>	<b>1,355,000</b>	<b>\$ 5.72</b>
Granted during the period	165,000	6.40
<b>Outstanding – December 31, 2009</b>	<b>1,520,000</b>	<b>\$ 5.80</b>

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

#### As of December 31, 2009

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	750,000	1.38	750,000	\$2.85
\$7.69	60,000	2.50	40,000	\$7.69
\$8.46	30,000	2.50	20,000	\$8.46
\$9.93	40,000	3.00	13,333	\$9.93
\$9.48	475,000	3.42	191,666	\$9.48
\$6.40	165,000	9.25	NIL	N/A
<b>\$5.80</b>	<b>1,520,000</b>	<b>2.98</b>	<b>1,014,999</b>	<b>\$4.50</b>

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 nine months ended December 31, 2009 was \$145 and \$394 (December 31, 2008 – \$Nil), respectively.

For the three and nine month periods ended December 31, 2009, total stock-based compensation expense on the options granted prior to the period ended June 30, 2009 was \$246 and \$953 (December 31, 2008 - \$592 and \$1,989), respectively.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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### 11. Retained Earnings

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Under the laws of the PRC, all wholly-owned foreign investment entities have to set aside a portion of their net income each year as a general reserve fund until the fund has reached 50% of the entity's paid in capital. As of December 31, 2009, the total paid in capital of the Company's PRC entities was \$88,483 (RMB 577.2 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 December 31, 2009 was \$12,003 (RMB 78.3 million; March 31, 2009 - \$12,199 or RMB 66.2 million).

### 12. Accumulated Other Comprehensive Income

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	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
<b>Balance – March 31, 2009</b>	<b>\$ 44,747</b>
Unrealized foreign currency translation losses during the period	(41,954)
<b>Balance – December 31, 2009</b>	<b>\$ 2,793</b>

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### 13. Segmented Information

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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.

### 14. Commitments

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Purchase commitments for raw materials and supplies in the amount of approximately \$30,730 (RMB 200.5 million) existed as of December 31, 2009. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$1,916 (RMB 12.5 million), including the Company's proportionate share of the joint venture's commitments of \$699 (RMB 4.56 million), existed as of December 31, 2009. These contracts are entered into in the normal course of business.

### 15. Financial Instruments Risks

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#### Market Risk

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

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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## 15. Financial Instruments Risks - continued

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### 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 other comprehensive income.

At December 31, 2009, through its wholly-owned, self-sustaining subsidiaries and joint venture, the Company had cash and cash equivalents of \$105,697 (March 31, 2009 - \$40,831), restricted cash of \$14,529 (March 31, 2009 - \$553), accounts receivable of \$17,365 (March 31, 2009 - \$20,477), other receivables of \$2,447 (March 31, 2009 - \$2,426), accounts payable and accrued liabilities of \$9,577 (March 31, 2009 - \$7,159), notes payable of \$14,279 (March 31, 2009 - \$553), and bank loans of \$41,084 (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 CD\$/RMB on the financial instruments would have a \$8,918 (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

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.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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## 15. Financial Instruments Risks - continued

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

As of December 31, 2009, the following table provides information regarding the ageing of accounts receivable that are past due but which are not impaired.

<b>Current</b>	<b>90 – 180 days</b>	<b>180 – 365 days</b>	<b>365 days +</b>	<b>Carrying value on the balance sheet</b>
\$15,441	\$566	\$924	\$434	\$17,365

As of March 31, 2009, the following table provides information regarding the ageing of accounts receivable that are past due but which are not impaired.

<b>Current</b>	<b>90 – 180 days</b>	<b>180 – 365 days</b>	<b>365 days +</b>	<b>Carrying value on the balance sheet</b>
\$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 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 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 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 there is any.

# Migao Corporation

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## Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2009 and 2008

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

(Unaudited)

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## 15. Financial Instruments Risks - continued

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### 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 December 31, 2009, the Company's cash and cash equivalents balance was \$128,025 (March 31, 2009 - \$41,688) and working capital balance was \$184,562 (March 31, 2009 - \$146,210). As at December 31, 2009, short-term bank loans in the amount of \$41,084 (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 related parties is not readily determinable due to the related party nature of the advances.

## 16. Other Risks

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### 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.