

Migao Corporation

**Consolidated Financial Statements
March 31, 2011 and 2010**

Migao Corporation

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Independent Auditors' Report

To the Shareholders of
Migao Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Migao Corporation, which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and retained earnings, the consolidated statements of comprehensive income (loss), and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Migao Corporation as at March 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: ***“MSCM LLP”***

**Chartered Accountants
Licensed Public Accountants**

Toronto, Ontario
June 8, 2011



Migao Corporation

Consolidated Balance Sheets

March 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 26,007	\$ 60,221
Restricted cash (note 3)	9,201	13,819
Accounts receivable	46,345	36,649
Prepayments, deposits and other assets (note 4)	57,757	30,743
Inventory (note 5)	56,600	120,181
Due from related party (note 6)	-	28
Due from joint venture partner (note 7)	1,730	1,270
Future income tax assets (note 14)	1,715	1,859
	199,355	264,770
Prepayments, deposits and other assets (note 4)	96,255	904
Plant and equipment (note 8)	66,237	55,748
Construction in progress	5,644	2,339
Land use rights (note 9)	19,525	19,386
Future income tax assets (note 14)	653	829
	\$ 387,669	\$ 343,976
Liabilities		
Current liabilities		
Loans (note 10)	\$ 46,578	\$ 40,831
Accounts payable and accrued liabilities (note 9)	10,353	10,591
Notes payable (note 3)	9,944	13,813
Customer deposits	10,154	7,219
Income taxes payable	2,661	1,734
Due to joint venture partner (note 7)	1,216	-
Future income tax liabilities (note 14)	2,364	1,131
	83,270	75,319
Future income tax liabilities (note 14)	56	151
	83,326	75,470
Shareholders' equity		
Share capital (note 11)	155,417	152,230
Contributed surplus (note 11)	5,721	5,702
Retained earnings	151,233	116,780
Accumulated other comprehensive loss (note 13)	(8,028)	(6,206)
	304,343	268,506
Commitments (note 17)		
Subsequent event (note 22)		
	\$ 387,669	\$ 343,976

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

Approved on behalf of the Board of Directors

Signed by: "Guocai Liu"
Director

Signed by: "Keith Attoe"
Director

Migao Corporation

Consolidated Statements of Operations and Retained Earnings

For the years ended March 31, 2011 and 2010

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

	2011	2010
Revenues	\$ 316,937	\$ 269,107
Cost of goods sold (note 5 and 8)	246,030	206,453
Gross profit	70,907	62,654
Operating expenses		
General and administrative (note 8 and 9)	11,575	8,826
Selling	9,921	6,074
Finance costs	2,126	1,732
Pre-operating costs	1,679	492
Stock-based compensation (note 11)	1,069	1,719
	26,370	18,843
Income from operations	44,537	43,811
Other income	502	335
Foreign exchange gain (loss)	29	(107)
Income before income taxes	45,068	44,039
Provision for income taxes (note 14)	10,615	5,751
Net income for the year	34,453	38,288
Retained earnings, beginning of year	116,780	78,492
Retained earnings, end of year	\$ 151,233	\$ 116,780
Income per share: (note 15)		
Basic	\$ 0.66	\$ 0.80
Diluted	\$ 0.65	\$ 0.79

Weighted average number of common shares

outstanding: (note 15)

Basic	52,275,538	48,125,050
Diluted	52,671,921	48,596,359

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

Migao Corporation

Consolidated Statements of Comprehensive Income (Loss)

For the years ended March 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011	2010
Net income	\$ 34,453	\$ 38,288
Other comprehensive loss, net of tax:		
Unrealized losses on translating financial statements of self-sustaining foreign operations	(1,822)	(50,953)
Comprehensive income (loss)	\$ 32,631	\$ (12,665)

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

Migao Corporation

Consolidated Statements of Cash Flows

For the years ended March 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011	2010
Cash flows from operating activities		
Net income	\$ 34,453	\$ 38,288
Items not affecting cash:		
Amortization	4,759	4,213
Stock-based compensation	1,069	1,719
Future income taxes	1,483	(574)
Amortization of transaction costs	179	129
Changes in non-cash working capital items:		
Restricted cash	4,658	(14,716)
Accounts receivable	(9,883)	(23,276)
Prepayments, deposits, and other receivables	(1,282)	(2,690)
Inventory	(58,617)	(57,812)
Due from joint venture partner	(476)	(1,321)
Due to joint venture partner	1,227	-
Accounts payable and accrued liabilities	600	5,200
Notes payable	(3,859)	14,215
Customer deposits	3,065	5,483
Due from related parties	28	130
Income taxes payable	934	42
Income taxes receivable	3	(22)
	(21,659)	(30,992)
Cash flows from investing activities		
Purchase of plant and equipment	(10,581)	(8,109)
Payment on construction in progress	(8,529)	(5,984)
Payments for land use rights	(1,105)	(1,398)
Refund on land use rights	-	770
Proceeds from sale of land use rights	-	1,069
Value-added tax refunds on land use rights	599	-
Value-added tax refunds on plant and equipment	-	1,409
Refund from prepayment for equipment	-	4,371
	(19,616)	(7,872)
Cash flows from financing activities		
Proceeds from bank loans	48,518	50,214
Repayment of bank loans	(42,854)	(23,695)
Issuance of common shares, net of cost	-	37,799
Proceeds from exercise of stock options	2,138	-
	7,802	64,318

Migao Corporation

Consolidated Statements of Cash Flows - continued

For the years ended March 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011	2010
Foreign exchange loss on cash held in foreign currency	(741)	(6,921)
Increase in cash and cash equivalents	(34,214)	18,533
Cash and cash equivalents, beginning of year	60,221	41,688
Cash and cash equivalents, end of year	\$ 26,007	\$ 60,221

Cash and cash equivalents consist of:

Cash on hand	\$ 24,997	\$ 58,232
Term deposit	43	40
Bank notes	967	1,949
	\$ 26,007	60,221

Total interest paid during the year ended March 31, 2011 was \$2,374 (RMB 15.7 million) (March 31, 2010 - \$1,594 or RMB 10.0 million). Total tax paid during the year ended March 31, 2011 was \$8,252 (RMB 54.5 million) (March 31, 2010 - \$5,061 or RMB 31.7 million). Total tax refunded during the year ended March 31, 2011 was \$38 (RMB 0.3 million) (March 31, 2010 - \$Nil). Total interest subsidy granted by government and received during the year ended March 31, 2011 was \$98 (RMB 0.7 million) (March 31, 2010 - \$126 or RMB 0.7 million).

Non-cash transactions for the year ended March 31, 2011 include transfer of \$6,060 (March 31, 2010 - \$13,452) from construction in progress to plant and equipment.

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

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

1. Nature of Operations and Basis of Presentation

Nature of Operations

Migao Corporation ("the Company" or "Migao"), through its wholly-owned Subsidiaries and 50% owned joint venture, is a manufacturer of specialty potash-based fertilizers, produced at its six 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 Migao International (Singapore) Pte. Ltd. ("Migao Singapore"), Sichuan Migao Chemical Fertilizer Industry Co., Ltd. ("Sichuan Migao"), Guangdong Migao Chemical Co., Ltd. ("Guangdong Migao"), Liaoning Migao Chemical Co., Ltd. ("Liaoning Migao"), Migao Chemical Industry (Shanghai) Co., Ltd. ("Shanghai Migao"), Migao Chemical (Changchun) Co., Ltd. ("Changchun Migao"), and Migao Chemical (Tianjin) Co., Ltd. ("Tianjin Migao") (collectively, the "Subsidiaries").

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

On February 21, 2011, Migao Chemical (Zunyi) Co., Ltd. ("Zunyi Migao") was incorporated. Guangdong Migao holds 100% of the issued and outstanding capital of Zunyi Migao. The subsidiary will be a specialty compound fertilizer facility.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its Subsidiaries and the proportionate share of the accounts of SQM JV in the PRC. All intercompany balances and transactions have been eliminated upon consolidation.

Cash equivalents

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

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

2. Significant Accounting Policies - continued

Prepayments and deposits

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

Inventory

Raw materials and finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is determined using the weighted-average method. Net realizable value represents the anticipated selling price less all further costs for distribution.

Plant and equipment

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

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

Construction in progress

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

Land use rights

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

Impairment of long-lived assets

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

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

2. Significant Accounting Policies - continued

Income taxes

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

Earnings per share

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

Revenue recognition

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

Pre-operating costs

All expenditures incurred prior to the commencement of commercial operations, including interest and administrative expenses, are expensed.

Stock-based compensation

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

Government assistance

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

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

2. Significant Accounting Policies - continued

Foreign exchange

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

Financial instruments

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

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

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

With respect to all of its financial instruments (except for due from related parties), the Company estimates that the fair value of these financial instruments approximates the carrying values at March 31, 2011 and 2010, and as such they are classified within Level 1 of the fair value hierarchy. The fair value of the amount due from related parties is not readily determinable due to the related party nature of the advances.

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

2. Significant Accounting Policies - continued

Measurement uncertainty

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

Joint Venture

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

Transaction Costs

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

Comparative figures

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

Recent Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board (AcSB) adopted International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company will report its first consolidated financial statements in accordance with IFRS for the three months ending June 30, 2011, with comparative figures for the corresponding year for 2010. In addition, the adoption will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended March 31, 2011, and restatement of the opening balance sheet as at April 1, 2010.

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Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

3. Restricted Cash

As at March 31, 2011 and March 31, 2010, the Company had the following restricted cash balances:

	March 31, 2011	March 31, 2010
Notes payable deposits	\$ 9,201	\$ 13,819

Notes payable are a form of cheque, which defers the payment until the due date for redeeming the note. According to the notes payable agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for notes payable which totaled \$9,944 as of March 31, 2011 (March 31, 2010 - \$13,813). The restrictions on the deposited cash will be released between April 2011 and September 2011, when the notes payable are redeemed.

4. Prepayments, Deposits and Other Assets

	March 31, 2011	March 31, 2010
Current:		
Prepayments for inventory	\$ 50,145	\$ 25,687
Prepayments for transportation services	121	328
Deposits for the supply of utilities	737	671
Deposits on obtaining sales contracts	1,917	899
VAT receivable	1,931	2,181
Government subsidy	570	174
Vendor refund	1,907	299
Other receivables and deposits	429	504
Prepayments, deposits and other assets – current	\$ 57,757	\$ 30,743
Long - term:		
Prepayments for inventory	\$ 94,947	\$ -
Prepayments for construction costs	392	132
Prepayments for machinery	807	659
Prepayments for land use right	109	113
Prepayments, deposits and other assets – long-term	\$ 96,255	\$ 904

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

4. Prepayments, Deposits and Other Assets - continued

In order to secure a stable supply and favourable pricing of raw materials, the Company entered into a long-term purchase contract with Potash Export Corporation to purchase 500,000 MT of potassium chloride every year starting from calendar year 2013. Under terms of the agreement, the Company is required to pay advance payments that are prepayments in nature. As of March 31, 2011, prepayments of \$94,947 (equivalent to US\$ 100.0 million) has been paid through the Company's individual subsidiaries in the PRC. As the Company expects to take delivery of the raw materials after the next twelve months, the prepayments are classified as non-current assets in the Company's consolidated balance sheets. During the year ended March 31, 2011, the CEO of the Company pledged his personal shares of the Company as a direct guarantee of the recoverability of this prepayment. (note 22) Prepayments to supplier are reclassified to inventories when the Company applies the prepayment to related purchases of raw materials. The Company will be monitoring Potash Export Corporation to ensure the timely delivery of goods in accordance with agreed terms.

5. Inventory

	March 31, 2011	March 31, 2010
Raw materials	\$ 14,248	\$ 14,726
Finished goods	5,867	5,765
Packing and other materials	476	308
Goods in transit	35,907	99,346
Work in progress	102	36
	\$ 56,600	\$ 120,181

During the year ended March 31, 2011, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (March 31, 2010 – \$Nil). Inventory included in cost of goods sold for the year ended March 31, 2011 was \$246,030 (March 31, 2010 - \$206,453).

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Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

6. Related Party Balances and Transactions

The Company had the following related party balances:

	March 31, 2011	March 31, 2010
Amount due from:		
Beijing Wei De Sen ("BWDS")	\$ -	\$ 28

During the year ended March 31, 2011, the Company purchased potassium chloride from SQM of \$6,632 (March 31, 2010 - \$Nil).

As at March 31, 2010, the Company paid an excess of \$28 to BWDS for the cost of motor vehicles it previously purchased on behalf of the Company.

These transactions were in the normal course of business and were measured at the exchange amounts, which are the amounts agreed upon by the parties.

Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") contributed administrative services to the Company and, due to the value of these services being immaterial, these contributed services were not recognized in the consolidated financial statements. In addition, LYEDC has provided corporate guarantees of \$4,456 (March 31, 2010 - \$5,952) of the Company's short-term bank loans outstanding as of March 31, 2011 (note 10).

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

During the year ended March 31, 2011, \$Nil (March 31, 2010 - \$100) salary was forgiven by officers and directors of the Company.

7. Joint Venture

As of March 31, 2011, the Company contributed cash of \$5,577 (US \$5.5 million) (March 31, 2010 - \$5,940 or US \$5.5 million) in return for a 50% interest in the SQM JV (see note 17). During the year ended March 31, 2011, the Company sold ammonium nitrate to SQM joint venture for \$2,519 (March 31, 2010 - \$Nil). As at March 31, 2011, SQM joint venture owes the Company \$3,460 (RMB 23.3 million) (March 31, 2010 - \$Nil) for ammonium nitrate purchased from the Company as well as natural gas and salaries expenses the Company paid on its behalf. The amount owing is shown on the balance sheet as due from joint venture partner. As at March 31, 2011, SQM contributed in excess of the Company's contribution and the advanced funding of \$1,216 is shown on the balance sheet as due to joint venture partner. As at March 31, 2010, the Company had contributed in excess of SQM's contribution and the advanced funding of \$1,270 was shown on the balance sheet as due from joint venture partner.

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

7. Joint Venture - continued

As of March 31, 2011 and 2010, the Company's 50% share of the assets and liabilities of the SQM JV is as follows:

	March 31, 2011	March 31, 2010
Cash and cash equivalents	\$ 172	\$ 2,689
Other non-cash current assets	3,161	410
	3,333	3,099
Plant and equipment	4,336	30
Construction in progress	-	227
Land use rights	1,057	1,083
Proportionate share of assets	\$ 8,726	\$ 4,439
Accounts payable and accrued liabilities	\$ 656	\$ 150
Notes payable	33	-
Customer deposits	269	-
Due to Sichuan Migao	1,730	-
Proportionate share of liabilities	\$ 2,688	\$ 150

For the year ended March 31, 2011 and 2010, the Company's 50% share of the results of operations and cash flows of the SQM JV is as follows:

	March 31, 2011	March 31, 2010
Revenues	\$ 629	\$ -
Cost of goods sold	566	-
Proportionate share of gross profit	63	-
Selling	26	-
Pre-operating costs	167	31
General and administrative	567	-
Finance costs	47	-
Proportionate share of operating expenses	807	31
Proportionate share of income from operations	(744)	(31)
Other income	8	-
Proportionate share of net loss for the year	\$ (736)	\$ (31)

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

7. Joint Venture - continued

Cash flows from operating activities	\$	899	\$	(1,280)
Cash flows from investing activities	\$	(3,486)	\$	(1,728)
Cash flows from financing activities	\$	Nil	\$	5,940

The Company's 50% share of the commitments for capital expenditure and purchase of raw material as at March 31, 2011 was \$17 and \$508 (March 31, 2010 - \$1,347 and \$Nil), respectively.

8. Plant and Equipment

				March 31, 2011
	Cost	Accumulated Amortization		Net Book Value
Buildings and improvements	\$ 41,264	\$ 4,591	\$	36,673
Machinery and equipment	37,778	9,455		28,323
Vehicles	786	433		
353				
Office equipment	1,879			991
	888			
	\$ 81,707	\$ 15,470	\$	66,237

				March 31, 2010
	Cost	Accumulated Amortization		Net Book Value
Buildings and improvements	\$ 32,066	\$ 3,201	\$	28,865
Machinery and equipment	32,870	6,854		26,016
Vehicles	1,343	747		596
Office equipment	619	348		271
	\$ 66,898	\$ 11,150	\$	55,748

Amortization expense for the year ended March 31, 2011 was \$4,427 (March 31, 2010 - \$3,762) and is included in cost of goods sold and general and administrative expense.

During the year ended March 31, 2011, the Company received \$Nil value-added tax refunds on the purchase of domestic equipments.

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

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Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

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Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

9. Land Use Rights

	31,	March 31,	March
		2011	2010
Land use rights	\$	20,768	\$ 20,306
Less: Accumulated amortization		1,243	920
	\$	19,525	\$ 19,386

During the year ended March 31, 2011, Sichuan Migao received \$599 or RMB 4.0 million (March 31, 2010 - \$Nil) value-added tax refunds on the lease of land use rights.

As of March 31, 2011, the Company had fourteen land leases from the Chinese government plus an interest in a joint venture holding one land lease. All land leases have terms of fifty years with remaining terms between 44 and 47 years.

Amortization expense for the year ended March 31, 2011 was \$332 (March 31, 2010 - \$451) and is included in general and administrative expense.

During the year ended March 31, 2011, the Company purchased a building from a third party located on 32,000 square meters of land. As of March 31, 2011, the contract to purchase for the relevant land use right has not been signed as the lease price of the land use right is still under negotiation.

As of March 31, 2011, the Company had not obtained the land use right certificates for three (March 31, 2010 – four) of the land leases. Approximately \$545 (March 31, 2010 – \$546) 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 and it is ready for construction.

Under the PRC law, land use rights can be revoked and the tenants can be forced to vacate at any time when re-development of the land is in the public interest.

10. Loans

At March 31, 2011, the Company has short-term bank loans outstanding totaling \$46,578 (March 31, 2010 - \$40,831) for working capital purposes.

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Year End</u>	<u>Secured by</u>
\$ 1,188	March 28, 2012	90% of Prime rate in China (“PC”)	5.45%	Corporate guarantee from Sichuan Migao
1,782	July 6, 2011	Fixed	4.78%	Corporate guarantee from Guangdong Migao

Migao Corporation

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For the year ended March 31, 2011 and 2010

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

10. Loans - continued

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Quarter End</u>	<u>Secured by</u>
\$ 2,228	July 15, 2011	105% of PC	6.36%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,228	July 15, 2011	105% of PC	6.36%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,673	July 14, 2011	Fixed	4.78%	Corporate guarantee from Guangdong Migao
2,673	July 15, 2011	90% of PC	5.45%	Two land use rights of Sichuan Migao
2,970	June 28, 2011	90% of PC	5.45%	Corporate guarantee from Sichuan Migao
2,970	Jan. 13, 2012	PC	6.06%	Certain buildings, one land use right of Sichuan Migao and corporate guarantee from Guangdong Migao
3,415	July 29, 2011	95% of PC	5.76%	Corporate guarantee from Sichuan Migao
3,846 ¹	July 4, 2011	Hong Kong inter-bank 6 months offer rate ("HIBOR")+3%	3.33%	Corporate guarantee from HK Migao
5,940	April 2, 2011	Fixed	5.31%	Corporate guarantee from Sichuan Migao
6,683	April 22, 2011	Fixed	5.31%	Corporate guarantee from Sichuan Migao
6,979	Feb. 29, 2012	Fixed	5.81%	Certain buildings, one land use right of Sichuan Migao and corporate guarantee from Guangdong Migao
45,575				
1,424	Other Loans			
(421)	Transaction Costs			
\$ 46,578				

¹ Guangdong Migao has to comply with certain bank covenants in relation to the loan. As of March 31, 2011, Guangdong Migao has met all relevant covenant requirements.

Migao Corporation

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For the year ended March 31, 2011 and 2010

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10. Loans – continued

During the year ended March 31, 2010, H.K. Migao engaged a Canadian based investment bank as its exclusive financial advisor in connection with a bank debt financing for the Company. In accordance with the agreement with the investment bank, the Company is required to pay a fee equal to 1.5% of the gross proceeds raised. Total lines of credit of \$47,118 (RMB 317.3 million) relating to the bank debt financing were approved. The total transaction costs incurred were \$729 (March 31, 2010 - \$729). As of March 31, 2011, the total lines of credit outstanding relating to the bank debt financing was \$6.7 million (RMB 45.0 million) (March 31, 2010 - \$8.2 million or RMB 55.0 million). As at March 31, 2011, the Company has recorded \$421 (March 31, 2010 - \$600) as unamortized transaction costs. Total amortization of the transaction costs for the year ended March 31, 2011 was \$179 (March 31, 2010 - \$129).

The transaction costs related to the loans withdrawn from the lines of credit are accreted using effective interest rates of between 6.86% and 6.93%. Amortization of the transaction costs related to the unused portion of the lines of credit will commence when the loans are withdrawn. The carrying value of all the bank loans approximates fair value due to the short-term nature of the loans. Total carrying value of the pledged assets was \$2,120 (RMB 14.3 million) as of March 31, 2011 (March 31, 2010 - \$5,346 or RMB 36.0 million).

Other loans represent borrowings from Hong Kong Euro Asia for working capital purposes. The loans bear no interest and are due on demand.

Total loan interest expense during the year ended March 31, 2011 was \$2,374 (RMB 15.7 million) (March 31, 2010 - \$1,594 or RMB 10.0 million). Total interest subsidy granted by the government during the year ended March 31, 2011 was \$498 (March 31, 2010 - \$126).

As of March 31, 2011, the Company had a \$85,861 or RMB 578.2 million (March 31, 2010 - \$86,645 or RMB 582.3 million) lines of credit arrangement in place, of which \$41,120 or RMB 276.9 million (March 31, 2010 - \$31,992 or RMB 215.0 million) has been withdrawn.

Migao Corporation

Notes to Consolidated Financial Statements

For the year ended March 31, 2011 and 2010

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

11. Share Capital

(a) Authorized

Unlimited common shares without par value

(b) Issued common shares

	Number of Shares	Amount
Balance – March 31, 2009	46,459,661	\$ 114,431
Issued pursuant to a private placement (i)	5,681,000	40,335
Share issuance costs (i)	-	(2,536)
Balance – March 31, 2010	52,140,661	\$ 152,230
Exercise of stock options (ii)	750,000	2,137
Fair value of stock options exercised (ii)	-	1,050
Balance – March 31, 2011	52,890,661	\$ 155,417

(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 \$2,017, reflecting a commission of 5% of the gross proceeds raised in the offering. In addition to the underwriting commission, the Company paid \$519 in total for expenses incurred on this public offering.

(ii) During the year ended March 31, 2011, 750,000 of the common share purchase options with an exercise price of \$2.85 per common share issued to employees and directors of the Company were exercised. The stock options were originally valued at \$1.40 per option.

(c) Contributed surplus

	Amount
Balance – March 31, 2009	\$ 3,883
Stock-based compensation expense	1,719
Forgiven officers' and directors' salaries (note 6)	100
Balance – March 31, 2010	\$ 5,702
Stock-based compensation expense	1,069
Fair value of stock options exercised	(1,050)
Balance – March 31, 2011	\$ 5,721

Migao Corporation

Notes to Consolidated Financial Statements

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11. Share Capital - continued

(d) Stock options

Under the Company's stock option plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The Board of Directors or such other persons designated by the Board of Directors 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 year.

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 year	165,000	6.40
Outstanding – March 31, 2010	1,520,000	\$ 5.80
Granted during the year	175,000	6.38
Exercised during the year	(750,000)	2.85
Outstanding – March 31, 2011	945,000	\$ 8.24

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

Exercise price	Number outstanding	As of March 31, 2011		Exercise price for exercisable options
		Weighted average remaining contractual life (years)	Number exercisable	
\$7.69	60,000	1.25	60,000	\$7.69
\$8.46	30,000	1.25	30,000	\$8.46
\$9.93	40,000	1.75	40,000	\$9.93
\$9.48	475,000	2.17	333,333	\$9.48
\$6.40	165,000	8.00	55,000	\$6.40
\$6.38	175,000	9.17	NIL	N/A
\$8.24	945,000	4.38	518,333	\$8.92

Migao Corporation

Notes to Consolidated Financial Statements

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11. Share Capital - continued

(d) Stock options - continued

During the period ended June 30, 2010, 175,000 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 \$6.38 per common share. These options have vesting periods of up to three years and an exercise period of up to ten years. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$4.27 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 2.69%; expected volatility 83%; and expected life of 5 years. Stock-based compensation expense on these options for the year ended March 31, 2011 was \$378 (March 31, 2010 - \$Nil).

For the year ended March 31, 2011, total stock-based compensation expense on the options granted prior to the current fiscal year was \$691 (March 31, 2010 - \$1,719).

12. Retained Earnings

Under the laws of the PRC, all wholly-owned foreign investment entities have to set aside a portion of their net income each year as a general reserve fund until the fund has reached 50% of the entity's paid in capital. As of March 31, 2011, the total paid in capital of the Company's PRC entities is \$87,494 (RMB 589.2 million; March 31, 2010 - \$85,885 or RMB 577.2 million). The Company is also required to set aside a portion of net income as an expansion fund. These funds are allowed to be distributed to shareholders at the time of winding up. The funds accumulated by the Company as at March 31, 2011 was \$16,582 (RMB 110.7 million; March 31, 2010 - \$12,794 or RMB 86.0 million).

13. Accumulated Other Comprehensive Loss

Unrealized gains on translating the financial statements of self-sustaining foreign operations:

	March 31, 2011	March 31, 2010
Balance – beginning of year	\$ (6,206)	\$ 44,747
Unrealized foreign currency translation losses during the year	(1,822)	(50,953)
Balance – end of year	\$ (8,028)	\$ (6,206)

Migao Corporation

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14. Income Tax

The components of income before income taxes are as follows:

	March 31, 2011	March 31, 2010
Pre-tax income (loss) from operations:		
Canada	\$ (5,484)	\$ (4,639)
Foreign – Asia	50,552	48,678
	\$ 45,068	\$ 44,039

The provision for income taxes consists of the following:

	March 31, 2011	March 31, 2010
Income taxes for operations:		
Current		
Foreign – Asia	\$ 9,132	\$ 6,325
Future		
Foreign – Asia	1,483	(574)
	\$ 10,615	\$ 5,751

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

Each subsidiary maintains a December 31st year end for tax purposes. As a result of their operating results, the Subsidiaries will be eligible for the 50% exemption from tax as follows: Changchun Migao for the years ending December 31, 2011 and 2012; Shanghai Migao for the years ending December 31, 2011 through 2012.

H.K. Migao and Migao Singapore are subject to income taxes on their taxable income as reported in their statutory accounts at a tax rate in accordance with the relevant tax laws. They are not anticipated to incur income taxes as no income is to be generated.

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

Migao Corporation

Notes to Consolidated Financial Statements

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14. Income Tax - continued

Income tax expense varies from the amount by applying the combined Canadian federal and provincial tax rate of 30.0% (2010 – 32.5%) to income before income taxes as follows:

	March 31, 2011	March 31, 2010
Pre-tax income	\$ 45,068	\$ 44,039
Income taxes at combined Canadian tax rate	\$ 13,521	\$ 14,313
Increase (decrease) in income taxes resulting from:		
Lower tax rates on earnings of PRC subsidiaries	(5,009)	(9,112)
Effects of changes in temporary differences not recognized	228	228
Effect of reduction in statutory rate and other adjustments	210	66
Non-deductible expenses	267	559
Change in valuation allowance	1,398	(303)
	\$ 10,615	\$ 5,751

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

31,	March 31, 2011	March 2010
Future income tax assets:		
Plant and equipment and land use rights	\$ 609	\$ 774
Share issue costs	589	989
Other timing differences	259	822
Inventory	1,500	1,190
Loss carryforwards	4,182	2,285
	7,139	6,060
Less: Valuation allowance	(4,771)	(3,372)
Total future income tax assets	2,368	2,688
Less: future income tax assets - current	(1,715)	1,859
Future income tax assets – long term	\$ 653	\$ 829
Future income tax liabilities:		
Plant and equipment and land use rights	\$ 56	\$ 151
Unrecognized revenue	1,773	523
Inventory	-	256
Other timing differences	591	352
Total future income tax liabilities	2,420	1,282
Less: future income tax liabilities - current	(2,364)	1,131
Future income tax liabilities – long term	\$ 56	\$ 151

Migao Corporation

Notes to Consolidated Financial Statements

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14. Income Tax - continued

At March 31, 2011, the Company has approximately \$14,202 (March 31, 2010 - \$9,142) of non-capital loss carry-forwards in Canada. The utilization of the losses is uncertain therefore, a valuation allowance has been applied and no future income tax asset is set up for these losses. These losses expire as follows:

2014	\$ 34
2015	147
2016	706
2027	2,656
2028	3,517
2029	545
2030	1,537
2031	<u>5,060</u>
Total	<u>\$ 14,202</u>

At March 31, 2011, the Company has approximately \$452 (2010 - \$33) of non-capital loss carry-forwards in its PRC subsidiaries. PRC tax loss deduction requires Chinese tax authority's approval. As at March 31, 2011, the Company has approximately \$525 (2010 - \$287) and \$529 (2010 - \$Nil) of non-capital loss occurred through its wholly-owned subsidiaries H.K. Migao and Migao Singapore, respectively. The Company has provided full valuation allowance on these non-capital losses.

15. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per common share for the years ended March 31, 2011 and 2010:

	March 31, 2011	March 31, 2010
Numerator:		
Income attributable to common shareholders - basic and diluted	\$ 34,453	\$ 38,288
Denominator:		
Weighted-average common shares outstanding - basic	52,275,538	48,125,050
Effect of dilutive securities:		
Stock options	396,383	471,309
Weighted-average common shares outstanding - diluted	52,671,921	48,596,359
Basic earnings per common share	\$ 0.66	\$ 0.80
Diluted earnings per common share	\$ 0.65	\$ 0.79

Migao Corporation

Notes to Consolidated Financial Statements

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15. Earnings per Share - continued

For the year ended March 31, 2011, approximately 605,000 potentially dilutive stock options were excluded from the computation of weighted-average number of diluted common shares outstanding, as the applicable exercise prices were greater than the average market price of the Company's common shares for the year.

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

16. Segmented Information

The Company has one operating segment, being the production and sale of specialty potash-based fertilizer, along with their associated by-products. The majority of the Company's assets and operations are located in the PRC. Although H.K. Migao is registered at Hong Kong, it is in fact a holding company with function currency of C\$.

Geographical information:

March 31, 2011	Canada	China	Total
Sales from operations	\$ -	\$ 316,937	\$ 316,937
Net (loss) income	\$ (4,813)	\$ 39,266	\$ 34,453
Total assets	\$ 3,662	\$ 384,007	\$ 387,669
Plant and equipment, land use rights and construction in progress	\$ 15	\$ 91,391	\$ 91,406
March 31, 2010	Canada	China	Total
Sales from operations	\$ -	\$ 269,107	\$ 269,107
Net (loss) income	\$ (4,639)	\$ 42,927	\$ 38,288
Total assets	\$ 6,173	\$ 338,348	\$ 344,521
Plant and equipment, land use rights and construction in progress	\$ -	\$ 76,292	\$ 76,292

Migao Corporation

Notes to Consolidated Financial Statements

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17. Commitments

Purchase commitments for raw materials and supplies for the next twelve months in the amount of approximately \$60.1 million exist as of March 31, 2011 (March 31, 2010 - \$92.3 million). During fiscal 2011, the Company signed a contract with OAO Silvinit ("Silvinit") and committed to purchase 260,000 tonnes of potassium chloride in the period from January 1, 2011 to December 31, 2011. These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$8.1 million (RMB 54.5 million) exist as of March 31, 2011 (March 31, 2010 - \$2.0 million or RMB 13.7 million). These contracts are entered into in the normal course of business.

A commitment to contribute cash in return for its interest in the SQM JV in the amount of \$4.4 million (US \$4.5 million) exists as of March 31, 2011 (March 31, 2010 - \$4.6 million or US \$4.5 million), representing the remaining contribution to bring the total contribution to US \$10 million under the joint venture agreement (note 7). The joint venture contract was entered into in the normal course of business.

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

2012	\$ 105
2013	105
2014	105
2015	<u>53</u>
Total	<u>\$ 368</u>

18. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's shareholders' equity. The Company has significant amount of debt for working capital purposes and therefore net earnings generated from operations are not entirely available for reinvestment in the Company. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company does not have a defined share repurchase plan and buy and sell decisions are made depending on market prices and regulatory restrictions. There were no changes in the Company's approach to capital management during the year. Except for Guangdong Migao as disclosed in Note 10, neither the Company nor any of its Subsidiaries are subject to externally imposed capital requirements.

Notes to Consolidated Financial Statements

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19. Financial Instruments Risks

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.

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

At March 31, 2011, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$24,292 (March 31, 2010 - \$55,263), restricted cash of \$9,201 (March 31, 2010 - \$13,819), accounts receivable of \$46,340 (March 31, 2010 - \$36,649), other receivables of \$1,427 (March 31, 2010 - \$2,818), accounts payable and accrued liabilities of \$9,659 (March 31, 2010 - \$9,507), notes payable of \$9,944 (March 31, 2010 - \$13,813), and bank loans of \$41,729 (March 31, 2010 - \$40,920), which were denominated in RMB. Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded within accumulated other comprehensive income, a component of shareholders' equity. A 10% change in the exchange rate between the C\$ and the RMB on the financial instruments would have a \$1,993 effect on the statement of comprehensive income in C\$(March 31, 2010 - \$4,431). The Company also had bank loans of \$3,846 (March 31, 2010 - \$Nil) that was denominated in Hong Kong dollars ("HK\$"). Gains and losses arising upon translation of this loan into C\$ for inclusion in the financial statements are recorded in the statement of operations. A 10% change in the exchange rate between the C\$ and the HK\$ on the financial instrument would have a \$385 effect on the statements of operations in C\$ (March 31, 2010 - \$Nil).

At March 31, 2011, through its wholly-owned subsidiary, H.K. Migao, the Company had cash and cash equivalents of \$139 (March 31, 2010 - \$4,011), and short-term loans of \$1,421 (March 31, 2010 - \$361), which were denominated in US\$. Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded in the statement of operations. A 10% change in the exchange rate between the C\$ and the US\$ on the financial instruments would have a \$128 effect on the statement of operations in C\$ (March 31, 2010 - \$437).

Migao Corporation

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19. Financial Instruments Risks - continued

Market Risk – continued

Foreign currency risk - continued

At March 31, 2011, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalents of \$50 (March 31, 2010 - \$Nil), and accounts payable and accrued liabilities of \$23 (March 31, 2010 - \$Nil), which were denominated in S\$. Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded in the statements of operations. A 10% change in the exchange rate between the C\$ and the S\$ on the financial instruments would have a \$3 effect on the statements of operations in C\$ (March 31, 2010 - \$Nil).

At March 31, 2011, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalent of \$5 (March 31, 2010 - \$Nil), which were denominated in US\$, of \$2 (March 31, 2010 - \$Nil), which were denominated in Euro dollar.

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 believes that it is reasonably possible for interest rates to increase or decrease by 0.5%. This would not have a material impact on the statements of operations.

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 cash, restricted cash and accounts receivable.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large PRC State-owned and private companies. A significant portion of the Company's accounts receivable is from long-term customers. Over the last three years, the Company has not suffered any significant credit related losses with any of its customers.

At March 31, 2011 and 2010, the Company does not consider any of its financial assets to be impaired.

The following tables provide information regarding the ageing of accounts receivable and amounts that are past due but which are not impaired as of March 31, 2011 and 2010.

March 31, 2011

Current	90 – 180 days	Past Due		Carrying value on the balance sheet
		180 – 365 days	365 days +	
\$39,054	\$6,190	\$636	\$465	\$46,345

Migao Corporation

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19. Financial Instruments Risks - continued

Credit Risk – continued

March 31, 2010

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

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 customers and the Company continues to conduct business with them on an ongoing basis. Accordingly, management expects that past due balances will be fully collectible in the future.

The Company reviews accounts receivable past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customers to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. The carrying amount of accounts receivable represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts and as a result, no allowance has been recorded. As well, deposits by certain customers are often made which also helps to mitigate the risk if any.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's growth is financed through a combination of the cash flows from operations, borrowing under the existing credit facilities and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

At March 31, 2011, the Company's cash and cash equivalents balance was \$26,007 (March 31, 2010 - \$60,221) and working capital balance was \$116,085 (March 31, 2010 - \$189,451). As at March 31, 2011, short-term loans in the amount of \$46,578 (March 31, 2010 - \$40,831) were outstanding under the Company's credit facilities.

Fair Value

The fair values of cash and cash equivalents, accounts receivable, restricted cash, other receivables, loans, accounts payable and accrued liabilities, notes payables and due to joint venture partner approximate their carrying values due to their short-term maturities. The fair value of the amount due from related parties is not readily determinable due to the related party nature of the amounts.

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20. 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.

21. Economic Dependence

During the year ended March 31, 2011, one customer individually comprised 21% of total revenue and two vendors accounted for 29%, and 22% of total purchases. At March 31, 2011, two customers represented 23% and 12% of total accounts receivable and two vendors represented 15% and 14% of total accounts payable. The customer represented at 21% of total revenue is the one representing 23% of total accounts receivable. The vendors accounting for 29% and 22% of total purchases is not the same as the ones representing 15% and 14% of total accounts payable.

During the year ended March 31, 2010, two customers comprised 19% and 17% of total revenue and one vendor individually accounted for 64% of total purchases. At March 31, 2010, one customer individually represented 11% of total accounts receivable and one vendor individually represented 16% of total accounts payable. The vendor accounting for 64% of total purchases is not the same as the one representing 16% of total accounts payable.

22. Subsequent Event

Subsequent to March 31, 2011 and as of June 7, 2011, the CEO of the Company pledged his personal shares of the Company as a direct guarantee of the recoverability of the prepayments of \$94,947 (equivalent to US\$ 100.0 million) made to Potash Export Corporation (note 4).