

Migao Corporation

Interim Consolidated Financial Statements

**First Quarter, Fiscal 2011
Ended June 30, 2010
(Unaudited)**

Migao Corporation

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For the three months ended June 30, 2010
(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)
(unaudited)

J u n e	2	0	1	March 31, 2010	0	3 0 ,
Assets						
Current assets						
Cash and cash equivalents				\$ 96,173	\$	60,221
Restricted cash (note 2)				11,320		13,819
Accounts receivable				34,208		36,649
Prepayments, deposits and other assets (note 3)				44,663		30,743
Inventory (note 4)				100,953		120,181
Due from related party (note 5)				29		28
Due from joint venture partner (note 6)				-		1,270
Income taxes receivable				383		-
Future income tax assets				1,700	1,859	
				289,429		264,770
Prepayments, deposits and other assets (note 3)				1,771		904
Plant and equipment (note 7)				59,467		55,748
Construction in progress				2,150		2,339
Land use rights (note 8)				20,293		19,386
Future income tax assets				863		829
				\$ 373,973	\$	343,976
Liabilities						
Current liabilities						
Loans (note 9)				\$ 47,610	\$	40,831
Accounts payable and accrued liabilities (note 8)				13,760		10,591
Notes payables (note 2)				11,318		13,813
Customer deposits				6,446		7,219
Income taxes payable				2,098		1,734
Future income tax liabilities				985		1,131
				82,217		75,319
Future income tax liabilities				171		151
				82,388	75,470	
Shareholders' equity						
Share capital (note 10)				152,230		152,230
Contributed surplus (note 10)				6,000		5,702
Retained earnings				125,701	116,780	
Accumulated other comprehensive income (loss) (note 11)				7,654		(6,206)
				291,585		268,506
Commitments (note 13)						
				\$ 373,973	\$	343,976

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

Approved on behalf of the Board of Directors

Signed by "Guocai Liu"
Director

Signed by "Keith Attoe"
Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

	June 30, 2010	June 30, 2009
Revenues	\$ 66,256	\$
	58,928	
Cost of goods sold (note 4 and 7)	48,757	
	44,320	
Gross profit	17,499	
	14,608	
Operating expenses		
Selling	2,366	660
General and administrative (notes 7 and 8)	2,736	1,772
Stock-based compensation (note 10)	298	565
Pre-operating costs	246	264
Finance costs	750	206
	6,396	3,467
Income from operations	11,103	
	11,141	
Other income	229	52
Foreign exchange gain	54	-
Income before income taxes	11,386	
	11,193	
Provision for income taxes:		
Current	2,466	
	1,539	
Future	(1)	96
	2,465	1,635
Net income for the period	8,921	9,558
Retained earnings, beginning of period	116,780	
	78,492	
Retained earnings, end of period	\$ 125,701	\$
	88,050	
Income per share:		
Basic	\$ 0.17	\$ 0.21
Diluted	\$ 0.17	\$ 0.20
Weighted average number of common shares outstanding:		
Basic	52,140,661	
	46,459,661	
Diluted	52,559,446	
	46,947,233	

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

For the three months ended June 30, 2010 and 2009

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2010	June 30, 2009
Net income	\$ 8,921	\$
	9,558	
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	13,860	(18,435)
Comprehensive income (loss)	\$ 22,781	\$ (8,877)

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

For the three months ended June 30, 2010 and 2009

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2010	June 30, 2009
Cash flows from operating activities		
Net income	\$ 8,921	\$ 9,558
Items not affecting cash:		
Amortization	1,141	1,209
Stock-based compensation	298	565
Future income taxes	(1)	96
Amortization of transaction costs	74	-
Foreign exchange loss	(54)	-
Changes in non-cash working capital items:		
Restricted cash	3,086	(600)
Accounts receivable	4,152	(42,309)
Prepayments, deposits, and other assets	89	(895)
Inventory	12,209	(2,945)
Due from joint venture partner	1,270	-
Accounts payable and accrued liabilities	3,397	481
Notes payable	(3,081)	1,625
Customer deposits	(1,025)	806
Due from related parties	-	67
Due to related parties	-	22
Income taxes payable	(105)	(1,037)
	30,371	(33,357)
Cash flows from investing activities		
Purchase of plant and equipment	(1,253)	(1,358)
Payment on construction in progress	(1,247)	(2,648)
Payment for land use rights	-	(3)
Refund on land use rights	-	745
Value-added tax refunds on plant and equipment	-	668
	(2,500)	(2,596)
Cash flows from financing activities		
Proceeds from loans	16,320	11,792
Repayment of loans	(12,045)	(12,390)
	4,275	(598)
Foreign exchange gain (loss) on cash held in foreign currency	3,806	(1,809)
Increase (decrease) in cash and cash equivalents	35,952	(38,360)
Cash and cash equivalents, beginning of period	60,221	
41,688		
Cash and cash equivalents, end of period	\$ 96,173	\$ 3,328

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

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

For the three months ended June 30, 2010 and 2009

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2010	June 30, 2009
Cash and cash equivalents consist of:		
Cash on hand	\$ 29,306	\$ 1,431
Term deposit	40	40
Bank notes	66,827	1,857
	\$ 96,173	\$ 3,328

Total interest paid during the three months ended June 30, 2010 was \$668 (RMB 4.4 million) (June 30, 2009 - \$203 or RMB 1.2 million). Total tax paid during the three months ended June 30, 2010 was \$2,319 (RMB 15.4 million) (June 30, 2009 - \$1,909 or RMB 11.2 million). Total interest subsidy received by the Company during the period ended June 30, 2010 was \$98 (RMB 0.7 million) (June 30, 2009 - \$126 or RMB 0.7 million).

Non-cash transactions for the three months ended June 30, 2010 includes transfer of \$1,360 (June 30, 2009 - \$5,414) from construction in progress to plant and equipment.

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Migao Corporation (“the Company” or “Migao”), through its wholly-owned Subsidiaries and 50% owned joint venture, 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 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 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 (note 6).

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 SQM JV in the PRC. All intercompany balances and transactions have been eliminated upon consolidation. These unaudited interim consolidated financial statements have been prepared by 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 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, 2010. Interim results are not necessarily indicative of the results expected for the fiscal year.

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

2. Restricted Cash

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

	June 30,	March 31,
	2010	
2010		
Notes payable		
deposits		
\$		
11,320	\$	
13,819		

Notes payable is a form of cheque, which defers the payment until the due date for redeeming the note. According to the notes payable agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for notes payable which totaled \$11,318 as of June 30, 2010 (March 31, 2010 - \$13,813). The restrictions on the deposited cash will be released between July 2010 and December 2010, when the notes payable are redeemed.

3. Prepayments, Deposits and Other Assets

	June 30,	March 31,
	2010	
2010		
Current:		
Prepayments for inventory		
\$		
3 9 , 5 0 9	\$	
25,687		
Prepayments for transportation		
s e r v i c e s		
2 6 0		
328		
Deposits for the supply of		
u t i l i t i e s		
6 1 7		
671		
Deposits on obtaining sales		
c o n t r a c t s		
5 6 9		

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

	899		
	VAT	receivable	
1	,	3	9 6
			2,181
	Other	receivables	and
	deposits	and	
2	,	3	1 2
			977
Prepayments, deposits and other assets – current		\$	44,663 \$30,743
Long Term:			
	Prepayments	for	construction
	costs		
			\$
275			\$
132			
	Prepayments	for	
	machinery		
1,383			
659			
	Prepayments	for	land use
	rights		
113			
113			
Prepayments, deposits and other assets – long-term		\$	1,771 \$ 904

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

4. Inventory

	June 30,	March 31,
	2010	
2010		
Raw materials	\$ 25,479	\$ 14,726
Finished goods	4,654	5,765
Packing and other materials	302	308
Goods in transit	70,518	99,346
Work in progress	-	36
	\$ 100,953	\$ 120,181

During the quarter, 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 quarter ended June 30, 2010 was \$48,757 (June 30, 2009 - \$44,320).

5. Related Party Balances and Transactions

The Company had the following related party balances:

	June 30,	March 31,
	2010	
2010		
Amount due from: Beijing Wei De Sen ("BWDS")	\$ 29	
	\$ 28	

As at June 30, 2010, the Company paid an excess of \$29 (June 30, 2009 - \$Nil) 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, because the value of these services was immaterial, these contributed services were not recognized in the financial statements. In addition, LYEDC has provided corporate guarantees of \$Nil (March 31, 2010 - \$5,952) of the Company's short-term bank loans outstanding as of June 30, 2010 (note 9).

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

6. Joint Venture

As of June 30, 2010, the Company contributed cash of \$5,940 (US \$5,500) (March 31, 2010 - \$5,940 or US \$5,500) in return for a 50% interest in the SQM JV (see note 13).

As of June 30, 2010 and March 31, 2010, the Company's 50% share of the assets and liabilities of the SQM JV is as follows:

	June 30, 2010	March 31, 2010
Cash and cash equivalents		
\$ 2,710		
\$ 2,689		
Other non-cash current assets		
1,059		
	3,769	3,099
Plant and equipment		
30		30
Construction in progress		
976		
227		
Land use rights		
1,132		
	\$ 5,907	\$ 4,439
Accounts payable and accrued liabilities		
\$ 123		
\$ 150		
	\$ 123	\$ 150

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

As of June 30, 2010 and 2009, the Company's 50% share of the results of operations and cash flows of the SQM JV is as follows:

	June 30, 2010	June 30,
2009		
P r e - o p e r a t i n g		
c o s t s		
	\$	
56	\$ -	
Proportionate share of net loss for the period	\$ (56)	\$ -
Cash flows from operating activities	\$ 1,210	\$ -
Cash flows from investing activities	\$ (1,329)	\$ -
Cash flows from financing activities	\$ -	\$ -

The Company's 50% share of the commitments which relates to capital expenditure as at June 30, 2010 totaled approximately \$10.0 million (March 31, 2010 - \$1.3 million).

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

7. Plant and Equipment

	June 30,		
	2010		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 35,460	\$ 3,712	\$ 31,748
Machinery and equipment	34,655	7,892	26,763
Vehicles	1,518	832	686
Office equipment	657	387	270
	\$ 72,290	\$ 12,823	\$ 59,467

	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 three months ended June 30, 2010 was \$1,062 (June 30, 2009 \$979) and is included in cost of goods sold and general and administrative expense.

8. Land Use Rights

	June 30, 2010		March 31,
	2010		2010
Land use rights	\$ 21,342	\$ 20,306	
Less: Accumulated amortization	1,049	920	
	\$ 20,293	\$ 19,386	

As of June 30, 2010, 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 46 to 49 years.

Amortization expense for the period ended June 30, 2010 was \$79 (June 30, 2009 - \$230) and is included in general and administrative expense.

As of June 30, 2010, the Company had not obtained the land use right certificates for four (March 31, 2010 – four) of the land leases and approximately \$574 (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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

8. Land Use Rights - continued

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

9. Loans

At June 30, 2010, the Company has short-term bank loans outstanding totaling \$47,610 (March 31, 2010 - \$40,831) for working capital purposes. Subsequent to June 30, 2010 and as of August 9, 2010, repayments in the amount of \$13,763 (RMB 88.0 million) were made against the outstanding bank loans.

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Year End</u>	<u>Secured by</u>
\$ 1,251	Aug. 12, 2010	90% of prime rate in China ("PC")	4.78%	Two land use rights of Sichuan Migao
1,564	Aug. 10, 2010	90% of PC	4.78%	Two land use rights of Sichuan Migao
1,564	Oct. 19, 2010	PC	5.31%	Corporate guarantee from Sichuan Migao
3,128	Sept. 17, 2010	90% of PC	4.78%	No security nor guarantee
3,128	June 28, 2011	90% of PC	4.78%	Corporate guarantee from Sichuan Migao
3,910	Mar. 4, 2011	95% of PC	5.04%	Corporate guarantee from Sichuan Migao
3,910	Sept. 27, 2010	PC	5.31%	Corporate guarantee from Sichuan Migao
6,256	Feb. 22, 2011	PC	5.31%	Corporate guarantee from Sichuan Migao
7,038	Sept. 10, 2010	PC	5.31%	Corporate guarantee from Sichuan Migao
7,351	March 1, 2011	90% of PC	4.78%	Certain buildings and one land use right of Sichuan Migao, and corporate guarantee from Guangdong Migao
7,820	July 1, 2010	90% of PC	4.78%	Corporate guarantee from Guangdong Migao
<u>46,920</u>				
<u>1,216</u>	Other Loans			
<u>(526)</u>	Transaction Costs			
<u>\$ 47,610</u>				

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

9. 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 \$48,641 (RMB 317.3 million) relating to the bank debt financing were approved and the Company has withdrawn \$15.6 million (RMB 100.0 million) from the lines of credit as of June 30, 2010 (March 31, 2010 - \$8.2 million or RMB 55.0 million). The total transaction costs were \$729 (March 31, 2010 - \$729). As at June 30, 2010, the Company has recorded \$526 (March 31, 2010 - \$600) as unamortized transaction costs and \$74 (June 30, 2009 - \$Nil) as amortization of transaction costs.

The transaction costs related to the loans withdrawn from the lines of credit are accreted using effective interest rates of between 6.33% and 8.78%. 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 \$2,279 (RMB 14.6 million) as of June 30, 2010 (March 31, 2010 - \$5,346 or RMB 36.0 million).

Other loans represent borrowings from Hong Kong Euro Asia for work capital purpose. The loans have no fixed term of repayment, bear no interest and are due on demand.

Total interest paid during the period ended June 30, 2010 was \$668 (RMB 4.4 million) (June 30, 2009 - \$203 or RMB 1.2 Million). Total interest subsidy received by the Company during the period ended June 30, 2010 was \$98 (RMB 0.7 million) (June 30, 2009 - \$126 or RMB 0.7 million).

As of June 30, 2010, the Company had a \$91,070 or RMB 582.3 million (March 31, 2010 - \$86,645 or RMB 582.3 million) line of credit arrangement in place, of which \$46,920 or RMB 300.0 million (March 31, 2010 - \$31,992 or RMB 215.0 million) has been withdrawn.

10. Share Capital

(a) Authorized

Unlimited common shares without par value.

(b) Issued common shares

	Number of Shares	Amount
Balance – June 30, 2010 and March 31, 2010	52,140,661	\$ 152,230

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

10. Share Capital - continued

(c) Contributed surplus	Amount
Balance – March 31, 2010	\$ 5,702
Stock-based compensation expense	298
Balance – June 30, 2010	\$ 6,000

(d) Stock options

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

The Black-Scholes option valuation model, used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the period.

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

	Options	Weighted average exercise price
Outstanding – March 31, 2010	1,520,000	\$ 5.80
Granted during the period	175,000	6.38
Outstanding – June 30, 2010	1,695,000	\$ 5.86

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

Exercise price	Number outstanding	Weight average remaining contractual life (years)	As of June 30, 2010	
			Number exercisable	Exercise price for exercisable options
\$2.85	750,000	0.88	750,000	\$2.85
\$7.69	60,000	2.00	60,000	\$7.69
\$8.46	30,000	2.00	30,000	\$8.46
\$9.93	40,000	2.50	26,667	\$9.93
\$9.48	475,000	2.92	333,333	\$9.48
\$6.40	165,000	8.75	55,000	\$6.40
\$6.38	175,000	9.92	NIL	N/A
\$5.86	1,695,000	3.25	1,255,000	\$5.28

10. Share Capital - continued

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

(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, expiring on June 2, 2020. 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 period ended June 30, 2010 was \$35 (June 30, 2009 - \$Nil).

For the period ended June 30, 2010, total stock-based compensation expense on the options granted prior to the period ended June 30, 2010 was \$263 (June 30, 2009 \$565).

11. Accumulated Other Comprehensive Income

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – March 31, 2010	\$ (6,206)
Unrealized foreign currency translation gains during the period	
	13,860
Balance – June 30, 2010	\$ 7,654

12. Segmented Information

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

13. Commitments

Purchase commitments dominated in RMB for raw materials and supplies for the next twelve months in the amount of approximately \$90.0 million (RMB 575.5 million) exist as of June 30, 2010 (March 31, 2010 - \$92.3 million or RMB 620.3 million). Purchase commitments dominated in US\$ for finished goods in the amount of approximately \$3.5 million (US \$3.3 million) exist as of June 30, 2010 (March 31, 2010 - \$3.3 million or US \$3.3 million). These contracts are entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately \$5.6 million (RMB 36.0 million) exist as of June 30, 2010 (March 31, 2010 - \$2.0 million or RMB 13.7 million). These contracts are entered into in the normal course of business.

Commitment to contribute cash in return for interest in the SQM JV in the amount of \$4.8 million (US \$4.5 million) exists as of June 30, 2010 (March 31, 2010 - \$4.6 million or US \$4.5 million), representing the remain contribution to bring the total contribution to US \$10 million under the joint venture agreement (note 6). The joint venture contract was entered into in the normal course of business.

14. Financial Instruments and Risk Management

Market Risk

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

14. Financial Instruments and Risk Management - continued

Market Risk - continued

Foreign currency risk - continued

At June 30, 2010, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$95,579 (March 31, 2010 - \$55,263), restricted cash of \$11,320 (March 31, 2010 - \$13,819), accounts receivable of \$34,208 (March 31, 2010 - \$36,649), other receivables of \$615 (March 31, 2010 - \$2,818), accounts payable and accrued liabilities of \$12,829 (March 31, 2010 - \$9,507), notes payable of \$11,318 (March 31, 2010 - \$13,813), and bank loans of \$46,920 (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 average exchange rate between C\$/RMB on the financial instruments would have a \$7,066 (June 30, 2009 - \$3,696) effect on the statement of operations in C\$.

At June 30, 2010, through its wholly-owned subsidiary, H.K. Migao, the Company had cash and cash equivalents of \$52 (March 31, 2010 - \$4,011), and accounts payable and accrued liabilities of \$1,066 (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 average exchange rate between C\$/US\$ on the financial instruments would have a \$101 effect on the statement of operations in C\$ (June 30, 2009 - \$7).

At June 30, 2010, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalents of \$304 (March 31, 2010 - \$Nil), and accounts payable and accrued liabilities of \$58 (March 31, 2010 - \$Nil), which were denominated in Singapore dollar ("S\$"). Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded in the statement of operations. A +/- 10% change in the average exchange rate between C\$/S\$ on the financial instruments would have a \$25 effect on the statement of operations in C\$ (June 30, 2009 - \$Nil).

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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

14. Financial Instruments and Risk Management - continued

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable.

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

At June 30, 2010 and March 31, 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 June 30, 2010 and March 31, 2010.

June 30, 2010

Current	90 – 180 days	Past Due			Carrying value on the balance sheet
		180 – 365 days	365 days +		
\$25,437	\$7,522	\$822	\$427	\$34,208	

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 customer(s) 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.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three months ended June 30, 2010 and 2009

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

(Unaudited)

14. Financial Instruments and Risk Management - continued

Liquidity Risk

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

At June 30, 2010, the Company's cash and cash equivalents balance was \$96,173 (March 31, 2010 - \$60,221) and working capital balance was \$207,212 (March 31, 2010 - \$189,451). As at June 30, 2010, short-term loans in the amount of \$47,610 (March 31, 2010 - \$40,831) were outstanding under the Company's credit facilities.

Fair Value

The fair value of cash and cash equivalents, accounts receivable, restricted cash, other receivables, 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 from related parties is not readily determinable due to the related party nature of the amounts.

15. Other Risk

Commodity Price Risk

Manufacturing costs for the Company's products are affected by the price of raw materials, namely potassium chloride, sulfuric acid, ammonium nitrate and certain other energy generating sources. In order to manage this risk, the Company includes a clause regarding transfer of risk to customers in all the medium and long-term sales contracts allowing it to renegotiate the prices in the event of change. In addition, the Company had been utilizing its strong working capital position in stocking raw materials when their price is anticipated to rise.