

Migao Corporation

Interim Consolidated Financial Statements

**Second Quarter, Fiscal 2011
Ended September 30, 2010
(Unaudited)**

Migao Corporation

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For the three and six months ended September 30, 2010 and 2009

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

(Unaudited)

	September 30, 2010	March 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 87,801	\$ 60,221
Restricted cash (note 2)	13,440	13,819
Accounts receivable	41,253	36,649
Prepayments, deposits and other assets (note 3)	68,059	30,743
Inventory (note 4)	90,714	120,181
Due from related party (note 5)	29	28
Due from joint venture partner (note 6)	-	1,270
Income taxes receivable	239	-
Future income tax assets	1,349	1,859
	302,884	264,770
Prepayments, deposits and other assets (note 3)	1,894	904
Plant and equipment (note 7)	57,825	55,748
Construction in progress	5,331	2,339
Land use rights (note 8)	19,888	19,386
Future income tax assets	825	829
	\$ 388,647	\$ 343,976
Liabilities		
Current liabilities		
Loans (note 9)	\$ 50,002	\$ 40,831
Accounts payable and accrued liabilities (note 8)	16,185	10,591
Notes payables (note 2)	15,326	13,813
Customer deposits	7,995	7,219
Income taxes payable	1,711	1,734
Future income tax liabilities	1,011	1,131
	92,230	75,319
Future income tax liabilities	187	151
	92,417	75,470
Shareholders' equity		
Share capital (note 10)	152,570	152,230
Contributed surplus (note 10)	6,149	5,702
Retained earnings	133,999	116,780
Accumulated other comprehensive income (loss) (note 11)	3,512	(6,206)
	296,230	268,506
	\$ 388,647	\$ 343,976

Commitments (note 13)

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

Approved on behalf of the Board of Directors

Signed by "Guocai Liu"

Director

Signed by "Keith Attoe"

Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings

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

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Revenues	\$ 68,455	\$ 67,684	\$ 134,711	\$ 126,612
Cost of goods sold (note 4 and 7)	52,169	53,335	100,926	97,655
Gross profit	16,286	14,349	33,785	28,957
Operating expenses				
Selling	2,065	1,115	4,431	1,775
General and administrative (notes 7 and 8)	2,290	1,556	5,026	3,328
Stock-based compensation (note 10)	261	391	559	956
Pre-operating costs	364	56	610	320
Finance costs	654	364	1,404	570
	5,634	3,482	12,030	6,949
Income from operations	10,652	10,867	21,755	22,008
Other income	59	15	288	67
Foreign exchange loss	(95)	-	(41)	-
Income before income taxes	10,616	10,882	22,002	22,075
Provision for income taxes:				
Current	1,889	1,255	4,355	2,794
Future	429	29	428	125
Net income for the period	8,298	9,598	17,219	19,156
Retained earnings, beginning of period	125,701	88,050	116,780	78,492
Retained earnings, end of period	\$ 133,999	\$ 97,648	\$ 133,999	\$ 97,648
Income per share:				
Basic	\$ 0.16	0.21	\$ 0.33	0.41
Diluted	\$ 0.16	0.20	\$ 0.33	0.41
Weighted average number of common shares outstanding:				
Basic	52,171,422	46,459,661	52,156,125	46,459,661
Diluted	52,569,835	46,931,813	52,564,559	46,918,502

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

Migao Corporation

Interim Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Net income	\$ 8,298	\$ 9,598	\$ 17,219	\$ 19,156
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(4,142)	(18,570)	9,718	(37,005)
Comprehensive income (loss)	\$ 4,156	\$ (8,972)	\$ 26,937	\$ (17,849)

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

Migao Corporation

Interim Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Cash flows from operating activities				
Net income	\$ 8,298	\$ 9,598	\$ 17,219	\$ 19,156
Items not affecting cash:				
Amortization	1,178	1,016	2,319	2,225
Stock-based compensation	261	391	559	956
Future income taxes	429	29	428	125
Amortization of transaction costs	52	-	126	-
Foreign exchange loss	95	-	41	-
Changes in non-cash working capital items:				
Restricted cash	(2,296)	(4,605)	790	(5,204)
Accounts receivable	(7,573)	36,771	(3,421)	(5,539)
Prepayments, deposits, and other assets	419	599	508	(297)
Inventory	(15,759)	(37,278)	(3,550)	(40,223)
Due from joint venture partner	-	-	1,270	-
Accounts payable and accrued liabilities	2,483	585	5,880	1,066
Notes payable	4,180	4,412	1,099	6,037
Customer deposits	1,620	2,720	595	3,526
Due from related parties	-	(66)	-	1
Due to related parties	-	(22)	-	-
Income taxes payable	(352)	82	(88)	(955)
Income taxes receivable	137	-	(232)	-
	(6,828)	14,232	23,543	(19,126)
Cash flows from investing activities				
Purchase of plant and equipment	(1,286)	(4,815)	(2,539)	(6,173)
Payment on construction in process	(2,400)	(404)	(3,647)	(3,052)
Payment for land use rights	-	(73)	-	(76)
Refund on land use rights	-	24	-	770
Value-added tax refunds on plant and equipment	-	532	-	1,200
	(3,686)	(4,736)	(6,186)	(7,331)
Cash flows from financing activities				
Proceeds from loans	20,474	25,385	36,794	37,177
Repayment of loans	(17,349)	-	(29,394)	(12,390)
Proceeds from exercise of stock options	228	-	228	-
	3,353	25,385	7,628	24,787

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Foreign exchange gain (loss) on cash held in foreign currency	(1,211)	(1,967)	2,595	(3,776)
Increase (decrease) in cash and cash equivalents	(8,372)	32,914	27,580	(5,446)
Cash and cash equivalents, beginning of period	96,173	3,328	60,221	41,688
Cash and cash equivalents, end of period	\$ 87,801	\$ 36,242	\$ 87,801	\$ 36,242

Cash and cash equivalents consist of:

	September 30, 2010	March 31, 2010
Cash on hand	\$ 21,286	\$ 14,467
Term deposit	40	40
Bank notes	66,475	21,735
	\$ 87,801	\$ 36,242

Total interest paid during the three and six month periods ended September 30, 2010 was \$541 and \$1,209 (Chinese Renminbi ("RMB") 3.5 million and RMB 7.9 million) (September 30, 2009 - \$360 or RMB 2.2 million and \$563 or RMB 3.4 million), respectively. Total tax paid during the three and six month periods ended September 30, 2010 was \$2,099 and \$4,418 (RMB 13.7 million and RMB 29.1 million) (September 30, 2009 - \$1,173 or RMB 7.3 million and \$3,082 or RMB 18.5 million), respectively. Total interest subsidy received during the three and six month periods ended September 30, 2010 was \$Nil and \$98 (RMB Nil and RMB 0.7 million) (September 30, 2009 - \$Nil and \$126 or RMB 0.7 million), respectively.

Non-cash transactions for the three and six months periods ended September 30, 2010 include transfer of \$54 and \$1,414 (September 30, 2009 - \$326 and \$5,740) from construction in progress and plant and equipment, respectively.

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

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 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 and six months ended September 30, 2010 and 2009

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

(Unaudited)

2. Restricted Cash

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

	September 30, 2010	March 31, 2010
Notes payable deposits	\$ 13,440	\$ 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 \$15,326 as of September 30, 2010 (March 31, 2010 - \$13,813). The restrictions on the deposited cash will be released between October 2010 and March 2011, when the notes payable are redeemed.

3. Prepayments, Deposits and Other Assets

	September 30, 2010	March 31, 2010
Current:		
Prepayments for inventory	\$ 63,376	\$ 25,687
Prepayments for transportation services	160	328
Deposits for the supply of utilities	731	671
Deposits on obtaining sales contracts	528	899
VAT receivable	2,198	2,181
Other receivables and deposits	1,066	977
Prepayments, deposits and other assets – current	\$ 68,059	\$ 30,743
Long Term:		
Prepayments for construction costs	\$ 638	\$ 132
Prepayments for machinery	1,141	659
Prepayments for land use right	115	113
Prepayments, deposits and other assets – long-term	\$ 1,894	\$ 904

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

4. Inventory

	September 30, 2010	March 31, 2010
Raw materials	\$ 39,385	\$ 14,726
Finished goods	6,491	5,765
Packing and other materials	351	308
Goods in transit	44,487	99,346
Work in progress	-	36
	\$ 90,714	\$ 120,181

During the three and six months ended September 30, 2010, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (three and six months ended September 30, 2009 – \$Nil).

5. Related Party Balances and Transactions

The Company had the following related party balances:

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

As at September 30, 2010, the Company paid an excess of \$29 (September 30, 2009 - \$29) 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 \$4,616 (March 31, 2010 - \$5,952) of the Company’s short-term bank loans outstanding as of September 30, 2010 (note 9).

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

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Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

6. Joint Venture

As of September 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 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.

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

	September 30, 2010	March 31, 2010
Cash and cash equivalents	\$ 1,836	\$ 2,689
Other non-cash current assets	351	410
	2,187	3,099
Plant and equipment	29	30
Construction in progress	3,072	227
Land use rights	1,108	1,083
Proportionate share of assets	\$ 6,396	\$ 4,439
Accounts payable and accrued liabilities	\$ 753	\$ 150
Proportionate share of liabilities	\$ 753	\$ 150

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

	For the three months ended		For the six months ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Pre-operating costs	\$ 51	\$ -	\$ 107	\$ -
Proportionate share of net loss for the period	\$ (51)	\$ -	\$ (107)	\$ -
Cash flows from operating activities	\$ (227)	\$ -	\$ 983	\$ -
Cash flows from investing activities	\$ (602)	\$ -	\$ 1,931	\$ -
Cash flows from financing activities	\$ -	\$ -	\$ -	\$ -

The Company's 50% share of the commitments which relates to capital expenditure as at September 30, 2010 totaled approximately \$1.1 million (March 31, 2010 - \$1.3 million).

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

7. Plant and Equipment

	September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 35,235	\$ 4,005	\$ 31,230
Machinery and equipment	34,076	8,444	25,632
Vehicles	1,563	867	696
Office equipment	670	403	267
	\$ 71,544	\$ 13,719	\$ 57,825

	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 and six months ended September 30, 2010 was \$1,097 and \$2,159 (September 30, 2009 - \$944 and \$1,923), respectively, and is included in cost of goods sold and general and administrative expense.

8. Land Use Rights

	September 30, 2010	March 31, 2010
Land use rights	\$ 21,001	\$ 20,306
Less: Accumulated amortization	1,113	920
	\$ 19,888	\$ 19,386

As of September 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 and 49 years.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

8. Land Use Rights - continued

Amortization expense for the three and six months ended September 30, 2010 were \$81 and \$160 (September 30, 2009 - \$72 and \$302), respectively, and is included in general and administrative expense.

As of September 30, 2010, the Company had not obtained the land use right certificates for four (March 31, 2010 – four) of the land leases and approximately \$565 (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.

9. Loans

At September 30, 2010, the Company has short-term bank loans outstanding totaling \$50,002 (March 31, 2010 - \$40,831) for working capital purposes. Subsequent to September 30, 2010 and as of November 11, 2010, repayments in the amount of \$1,539 (RMB 10.0 million) have been made against the outstanding bank loans.

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Quarter End</u>	<u>Secured by</u>
\$ 1,539	Oct. 19, 2010	Prime rate in China (“PC”)	5.31%	Corporate guarantee from Sichuan Migao
1,847	July 6, 2011	90% of PC	4.78%	Corporate guarantee from Guangdong Migao
2,308	July 15, 2011	fixed	5.58%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,308	July 15, 2011	fixed	5.58%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,770	July 14, 2011	90% of PC	4.78%	Corporate guarantee from guangdong Migao

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

9. Loans - continued

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Quarter End</u>	<u>Secured by</u>
2,770	July 15, 2011	90% of PC	4.78%	Two land use rights of Sichuan Migao
3,078	June 28, 2011	90% of PC	4.78%	Corporate guarantee from Sichuan Migao
3,540	July 29, 2011	90% of PC	4.78%	Corporate guarantee from Sichuan Migao
3,848	Mar. 4, 2011	95% of PC	5.04%	Corporate guarantee from Sichuan Migao
3,986 ¹	July 4, 2011	Hong Kong inter-bank offer rate ("HIBOR")	4.20%	Corporate guarantee from HK Migao
6,156	Feb. 22, 2011	PC	5.31%	Corporate guarantee from Sichuan Migao
6,926	April 22, 2011	PC	5.31%	Corporate guarantee from Sichuan Migao
7,233	March 1, 2011	90% of PC	4.78%	Certain buildings, one land use right of Sichuan Migao and corporate guarantee from Guangdong Migao
48,309				
2,167	Other Loans			
(474)	Transaction Costs			
<u>\$ 50,002</u>				

¹ The following bank covenants were imposed on the loan:

1. Guangdong Migao's annual revenues must be greater than RMB 600.0 million
2. Guangdong Migao's debts to assets ratio must not exceed 60%
3. Guangdong Migao's current ratio must be greater than 1.5 : 1
4. Guangdong Migao's quick ratio must be greater than 0.9 : 1
5. Guangdong Migao's annual net income must be greater than RMB 60.0 million

As of September 30, 2010, Guangdong Migao has met all relevant covenant requirements (covenant 2, 3, and 4) noted above.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

9. Loans – continued - 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 \$8.5 million (RMB 55.0 million) from the lines of credit as of September 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 September 30, 2010, the Company has recorded \$474 (March 31, 2010 - \$600) as unamortized transaction costs. In addition, for the three and six months ended September 30, 2010, the Company had recorded \$52 and \$126 (September 30, 2009 - \$Nil), respectively, 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 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 \$2,219 (RMB 14.4 million) as of September 30, 2010 (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 interest paid during the three and six months period ended September 30, 2010 was \$541 and \$1,209 (RMB 3.5 million and RMB 7.9 million) (September 30, 2009 - \$360 or RMB 2.2 million and \$563 or RMB 3.4 million), respectively. Total interest subsidy received by the Company during the three and six month periods ended September 30, 2010 was \$Nil and \$98 (September 30, 2009 - \$Nil and \$126), respectively.

As of September 30, 2010, the Company had a \$93,600 or RMB 608.2 million (March 31, 2010 - \$86,645 or RMB 582.3 million) line of credit arrangement in place, of which \$43,692 or RMB 283.9 million (March 31, 2010 - \$31,992 or RMB 215.0 million) has been withdrawn.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

10. Share Capital

(a) **Authorized**

Unlimited common shares without par value.

(b) **Issued common shares**

	Number of Shares	Amount
Balance – March 31, 2010	52,140,661	\$ 152,230
Exercise of stock options (i)	80,000	228
Fair value of stock options exercised (i)	-	112
Balance – September 30, 2010	52,220,661	\$ 152,570

- (i) During the quarter ended September 30, 2010, 80,000 (80,000 for the six months ended September 30, 2010) 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, 2010	\$ 5,702
Stock-based compensation expense	559
Fair value of stock options exercised	(112)
Balance – September 30, 2010	\$ 6,149

(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 period.

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Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

10. Share Capital - continued

(d) Stock options - continued

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

	Options	Weighted average exercise price
Outstanding – March 31, 2010	1,520,000	\$ 5.80
Granted during the period	175,000	6.38
Exercised during the period	(80,000)	2.85
Outstanding – September 30, 2010	1,615,000	\$ 6.00

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

<u>As of September 30, 2010</u>				
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	670,000	0.63	670,000	\$2.85
\$7.69	60,000	1.75	60,000	\$7.69
\$8.46	30,000	1.75	30,000	\$8.46
\$9.93	40,000	2.25	26,667	\$9.93
\$9.48	475,000	2.67	333,333	\$9.48
\$6.40	165,000	8.50	55,000	\$6.40
\$6.38	175,000	9.67	NIL	N/A
\$6.00	1,615,000	3.12	1,175,000	\$5.45

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 three and six months ended September 30, 2010 was \$115 and \$150 (September 30, 2009 - \$Nil), respectively.

For the three and six months ended September 30, 2010, total stock-based compensation expense on the options granted prior to the period ended June 30, 2010 was \$146 and \$409 (September 30, 2009 - \$391 and \$956), respectively.

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and six months ended September 30, 2010 and 2009

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

(Unaudited)

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	9,718
Balance – September 30, 2010	\$ 3,512

12. Segmented Information

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

13. Commitments

Purchase commitments denominated in RMB for raw materials and supplies for the next twelve months in the amount of approximately \$84.5 million (RMB 548.8 million) exist as of September 30, 2010 (March 31, 2010 - \$92.3 million or RMB 620.3 million). Purchase commitments denominated in US\$ for finished goods in the amount of approximately \$3.4 million (US \$3.3 million) exist as of September 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 \$6.2 million (RMB 40.2 million) exist as of September 30, 2010 (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 \$4.6 million (US \$4.5 million) exists as of September 30, 2010 (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 6).

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(Unaudited)

14. 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 Canadian dollars ("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 statement of operations.

At September 30, 2010, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$86,648 (March 31, 2010 - \$55,263), restricted cash of \$13,440 (March 31, 2010 - \$13,819), accounts receivable of \$41,251 (March 31, 2010 - \$36,649), other receivables of \$953 (March 31, 2010 - \$2,818), accounts payable and accrued liabilities of \$15,797 (March 31, 2010 - \$9,507), notes payable of \$15,326 (March 31, 2010 - \$1,383), and bank loans of \$48,309 (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 \$6, effect on the statement of comprehensive income in C\$286 (September 30, 2009 - \$509).

At September 30, 2010, through its wholly-owned subsidiary, H.K. Migao, the Company had cash and cash equivalents of \$44 (March 31, 2010 - \$4,011), and short-term loans of \$2,026 (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 \$198 effect on the statement of operations in C\$ (September 30, 2009 - \$9).

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

(Unaudited)

14. Financial Instruments Risks - continued

Market Risk – continued

Foreign currency risk - continued

At September 30, 2010, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalents of \$180 (March 31, 2010 - \$Nil), and accounts payable and accrued liabilities of \$84 (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 exchange rate between the C\$ and the S\$ on the financial instruments would have a \$10 effect on the statement of operations in C\$ (September 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 believes that interest rates are reasonable to increase or decrease by 0.5%. This would not have a material impact on the statement 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 September 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 September 30, 2010 and March 31, 2010.

September 30, 2010

Current	90 – 180 days	Past Due		Carrying value on the balance sheet
		180 – 365 days	365 days +	
\$30,976	\$9,033	\$837	\$407	\$41,253

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

(Unaudited)

14. 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 September 30, 2010, the Company's cash and cash equivalents balance was \$87,801 (March 31, 2010 - \$60,221) and working capital balance was \$210,654 (March 31, 2010 - \$189,451). As at September 30, 2010, short-term loans in the amount of \$50,002 (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.

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

(Unaudited)

15. Other Risks

Commodity Price Risk

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