

Migao Corporation

Interim Consolidated Financial Statements

**Third Quarter, Fiscal 2011
Ended December 31, 2010
(Unaudited)**

Migao Corporation

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For the three and nine months ended December 31, 2010 and 2009

(Unaudited)

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Migao Corporation

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars)

(Unaudited)

	December 31, 2010	March 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 75,822	\$ 60,221
Restricted cash (note 2)	8,823	13,819
Accounts receivable	31,503	36,649
Prepayments, deposits and other assets (note 3)	101,206	30,743
Inventory (note 4)	73,459	120,181
Due from related party (note 5)	28	28
Due from joint venture partner (note 6)	85	1,270
Income taxes receivable	148	-
Future income tax assets	1,324	1,859
	292,398	264,770
Prepayments, deposits and other assets (note 3)	1,907	904
Plant and equipment (note 7)	63,781	55,748
Construction in progress	6,846	2,339
Land use rights (note 8)	19,420	19,386
Future income tax assets	826	829
	\$ 385,178	\$ 343,976
Liabilities		
Current liabilities		
Loans (note 9)	\$ 46,378	\$ 40,831
Accounts payable and accrued liabilities (note 8)	17,965	10,591
Notes payable (note 2)	10,533	13,813
Customer deposits	8,386	7,219
Income taxes payable	1,832	1,734
Future income tax liabilities	885	1,131
	85,979	75,319
Future income tax liabilities	205	151
	86,184	75,470
Shareholders' equity		
Share capital (note 10)	152,634	152,230
Contributed surplus (note 10)	6,389	5,702
Retained earnings	142,313	116,780
Accumulated other comprehensive income (loss) (note 11)	(2,342)	(6,206)
	298,994	268,506
	\$ 385,178	\$ 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 nine months ended	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Revenues	\$ 64,604	\$ 67,034	\$ 199,315	\$ 193,646
Cost of goods sold (notes 5 and 7)	48,048	51,427	148,974	149,082
Gross profit	16,556	15,607	50,341	44,564
Operating expenses				
Selling	2,426	1,762	6,857	3,537
General and administrative (notes 7 and 8)	2,574	2,804	7,600	6,132
Stock-based compensation (note 10)	261	391	820	1,347
Pre-operating costs	756	114	1,366	434
Finance costs	631	523	2,035	1,093
	6,648	5,594	18,678	12,543
Income from operations	9,908	10,013	31,663	32,021
Other income	188	57	476	124
Foreign exchange gain	56	-	15	-
Income before income taxes	10,152	10,070	32,154	32,145
Provision for income taxes:				
Current	1,920	1,262	6,275	4,056
Future	(82)	102	346	227
Net income for the period	8,314	8,706	25,533	27,862
Retained earnings, beginning of period	133,999	97,648	116,780	78,492
Retained earnings, end of period	\$ 142,313	\$ 106,354	\$ 142,313	\$ 106,354
Income per share:				
Basic	\$ 0.16	\$ 0.18	\$ 0.49	\$ 0.60
Diluted	\$ 0.16	\$ 0.18	\$ 0.49	\$ 0.59
Weighted average number of common shares outstanding:				
Basic	52,228,324	47,509,411	52,180,279	46,810,850
Diluted	52,641,885	47,965,124	52,591,458	47,283,044

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 nine months ended</u>	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Net income	\$ 8,314	\$ 8,706	\$ 25,533	\$ 27,862
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(5,854)	(4,949)	3,864	(41,954)
Comprehensive (loss) income	\$ 2,460	\$ 3,757	\$ 29,397	\$ (14,092)

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 nine months ended</u>	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Cash flows from operating activities				
Net income	\$ 8,314	\$ 8,706	\$ 25,533	\$ 27,862
Items not affecting cash:				
Amortization	1,179	1,025	3,498	3,250
Stock-based compensation	261	391	820	1,347
Future income taxes	(82)	102	346	227
Amortization of transaction costs	27	47	153	47
Foreign exchange loss	(56)	-	(15)	-
Changes in non-cash working capital items:				
Restricted cash	4,391	(9,222)	5,181	(14,426)
Accounts receivable	9,019	2,549	5,598	(2,990)
Prepayments, deposits, and other assets	(1,516)	(3,131)	(1,008)	(3,428)
Inventory	(17,590)	27,787	(21,140)	(12,436)
Due from joint venture partner	-	(1,321)	1,270	(1,321)
Accounts payable and accrued liabilities	(2,348)	3,342	3,532	4,408
Notes payable	(4,531)	8,226	(3,432)	14,263
Customer deposits	552	14,536	1,147	18,062
Due from related parties	(85)	128	(85)	129
Income taxes payable	155	502	67	(213)
Income taxes receivable	87	218	(145)	(22)
	(2,223)	53,885	21,320	34,759
Cash flows from investing activities				
Purchase of plant and equipment	(1,742)	(1,073)	(4,281)	(7,246)
Payment on construction in process	(3,720)	(2,435)	(7,367)	(5,487)
Payment for land use rights	-	-	-	(76)
Refund on land use rights	-	-	-	770
Proceeds from sale of land use right	-	1,069	-	1,069
Value-added tax refunds on plant and equipment	-	460	-	1,660
Refund from prepayment for equipment	-	2,866	-	2,866
	(5,462)	887	(11,648)	(6,444)

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Cash flows from financing activities				
Proceeds from loans	-	1,547	36,794	38,724
Repayment of loans	(2,671)	(1,392)	(32,065)	(13,782)
Issuance of common shares, net	-	37,876	-	37,876
Proceeds from exercise of stock options	43	-	271	-
	(2,628)	38,031	5,000	62,818
Foreign exchange gain (loss) on cash held in foreign currency	(1,666)	(1,020)	929	(4,796)
Increase (decrease) in cash and cash equivalents	(11,979)	91,783	15,601	86,337
Cash and cash equivalents, beginning of period	87,801	36,242	60,221	41,688
Cash and cash equivalents, end of period	\$ 75,822	\$ 128,025	\$ 75,822	\$ 128,025

Cash and cash equivalents consist of:

	December 31, 2010	March 31, 2010
Cash on hand	\$ 12,678	\$ 58,232
Term deposit	40	40
Bank notes	63,104	1,949
	\$ 75,822	\$ 60,221

Total interest paid during the three and nine month periods ended December 31, 2010 was \$599 and \$1,808 (Chinese Renminbi (“RMB”) 3.9 million and RMB 11.8 million) (December 31, 2009 - \$546 or RMB 3.5 million and \$1,109 or RMB 7.0 million), respectively. Total tax paid during the three and nine month periods ended December 31, 2010 was \$1,677 and \$6,095 (RMB 11.0 million and RMB 40.1 million) (December 31, 2009 - \$1,371 or RMB 8.8 million and \$4,452 or RMB 27.3 million), respectively. Total tax refunded during the three and nine month periods ended December 31, 2010 was \$Nil (December 31, 2009 - \$460 or RMB 3.0 million and \$460 or RMB 3.0 million). Total interest subsidy received during the three and nine month periods ended December 31, 2010 was \$Nil and \$98 (RMB Nil million and RMB 0.7 million) (December 31, 2009 - \$Nil and \$126 or RMB 0.7 million), respectively.

Non-cash transactions for the three and nine months periods ended December 31, 2010 include transfer of \$3,037 and \$4,451 (December 31, 2009 - \$924 and \$6,664) from construction in progress to plant and equipment, respectively.

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

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 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 (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 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, they 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 nine months ended December 31, 2010 and 2009

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

(Unaudited)

2. Restricted Cash

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

	December 31, 2010	March 31, 2010
Notes payable deposits	\$ 8,823	\$ 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 \$10,533 as of December 31, 2010 (March 31, 2010 - \$13,813). The restrictions on the deposited cash will be released between January 2011 and June 2011, when the notes payable are redeemed.

3. Prepayments, Deposits and Other Assets

	December 31, 2010	March 31, 2010
Current:		
Prepayments for inventory (<i>note 3</i>)	\$ 95,109	\$ 25,687
Prepayments for transportation services	49	328
Deposits for the supply of utilities	730	671
Deposits on obtaining sales contracts	1,910	899
VAT receivable	2,177	2,181
Other receivables and deposits	1,231	977
Prepayments, deposits and other assets – current	\$ 101,206	\$ 30,743
Long - term:		
Prepayments for construction costs	\$ 169	\$ 132
Prepayments for machinery	1,627	659
Prepayments for land use right	111	113
Prepayments, deposits and other assets – long-term	\$ 1,907	\$ 904

Migao Corporation

Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

4. Inventory

	December 31, 2010	March 31, 2010
Raw materials	\$ 38,001	\$ 14,726
Finished goods	6,856	5,765
Packing and other materials	480	308
Goods in transit	27,945	99,346
Work in progress	177	36
	\$ 73,459	\$ 120,181

During the three and nine months ended December 31, 2010, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (three and nine months ended December 31, 2009 – \$Nil).

5. Related Party Balances and Transactions

The Company had the following related party balances:

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

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

During the three and nine months ended December 31, 2010, the Company also purchased potassium chloride from SQM of \$Nil and \$3,700 (10,403 tonnes), respectively.

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 financial statements. In addition, LYEDC has provided corporate guarantees of \$4,528 (March 31, 2010 - \$5,952) of the Company’s short-term bank loans outstanding as of December 31, 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 nine months ended December 31, 2010 and 2009

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

(Unaudited)

6. Joint Venture

As of December 31, 2010, the Company contributed cash of \$5,940 (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 13). As at December 31, 2010, the Company paid natural gas expenses of \$85 (March 31, 2010 - \$Nil) on behalf of SQM and the amount was shown on the balance sheet as due from 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.

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

	December 31, 2010	March 31, 2010
Cash and cash equivalents	\$ 721	\$ 2,689
Other non-cash current assets	737	410
	1,458	3,099
Plant and equipment	3,873	30
Construction in progress	896	227
Land use rights	1,080	1,083
Proportionate share of assets	\$ 7,307	\$ 4,439
Accounts payable and accrued liabilities	\$ 1,786	\$ 150
Proportionate share of liabilities	\$ 1,786	\$ 150

For the three and nine months period ended December 31, 2010 and 2009, the Company's 50% share of the results of operations and cash flows of the SQM JV is as follows:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Pre-operating costs	\$ 96	\$ 20	\$ 203	\$ 20
Proportionate share of net loss for the period	\$ (96)	\$ (20)	\$ (203)	\$ (20)
Cash flows from operating activities	\$ 134	\$ (1,286)	\$ 1,117	\$ (1,286)
Cash flows from investing activities	\$ (1,221)	\$ (1,259)	\$ (3,152)	\$ (1,259)
Cash flows from financing activities	\$ -	\$ 5,940	\$ -	\$ 5,940

The Company's 50% share of the commitments for capital expenditure and purchase of raw material as

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

at December 31, 2010 was \$43 and \$19 (March 31, 2010 - \$1,347 and \$Nil) , respectively.

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

7. Plant and Equipment

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	\$ 40,798	\$ 4,281	\$ 36,517
Machinery and equipment	35,121	8,947	26,174
Vehicles	1,671	897	774
Office equipment	732	416	316
	\$ 78,322	\$ 14,541	\$ 63,781

	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 nine months ended December 31, 2010 was \$1,099 and \$3,258 (December 31, 2009 - \$949 and \$2,872), respectively, and is included in cost of goods sold and general and administrative expense.

8. Land Use Rights

	December 31, 2010	March 31, 2010
Land use rights	\$ 20,591	\$ 20,306
Less: Accumulated amortization	1,171	920
	\$ 19,420	\$ 19,386

As of December 31, 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.

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

8. Land Use Rights - continued

Amortization expense for the three and nine months ended December 31, 2010 was \$80 and \$240 (December 31, 2009 - \$76 and \$378), respectively, and is included in general and administrative expense.

As of December 31, 2010, the Company had not obtained the land use right certificates for four (March 31, 2010 – four) of the land leases. Approximately \$554 (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 December 31, 2010, the Company has short-term bank loans outstanding totaling \$46,378 (March 31, 2010 - \$40,831) for working capital purposes.

<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Interest Rate at Quarter End</u>	<u>Secured by</u>
\$ 1,811	July 6, 2011	90% of Prime rate in China ("PC")	4.78%	Corporate guarantee from Guangdong Migao
2,264	July 15, 2011	fixed	5.58%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,264	July 15, 2011	fixed	5.58%	Corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company
2,716	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 nine months ended December 31, 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>
2,716	July 15, 2011	90% of PC	4.78%	Two land use rights of Sichuan Migao
3,018	June 28, 2011	90% of PC	4.78%	Corporate guarantee from Sichuan Migao
3,470	July 29, 2011	90% of PC	4.78%	Corporate guarantee from Sichuan Migao
3,773	March 4, 2011	95% of PC	5.04%	Corporate guarantee from Sichuan Migao
3,908 ¹	July 4, 2011	Hong Kong inter-bank offer rate ("HIBOR")	4.20%	Corporate guarantee from HK Migao
6,036	February 22, 2011	PC	5.31%	Corporate guarantee from Sichuan Migao
6,791	April 22, 2011	PC	5.31%	Corporate guarantee from Sichuan Migao
7,092	March 1, 2011	90% of PC	4.78%	Certain buildings, one land use right of Sichuan Migao and corporate guarantee from Guangdong Migao
45,859				
966	Other Loans			
(447)	Transaction Costs			
<u>\$ 46,378</u>				

¹ Guangdong Migao has to comply with certain bank covenants in relation to the loan. As of December 31, 2010, Guangdong Migao has met all relevant covenant requirements.

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 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. As of December 31, 2010, the total lines of credit outstanding relating to the bank debt financing was \$6.8 million (RMB 45.0 million) (March 31, 2010 - \$8.2 million or RMB 55.0 million). The total transaction costs were \$729 (March 31, 2010 - \$729). As at December 31, 2010, the Company has recorded \$447 (March 31, 2010 - \$600) as unamortized transaction costs. In addition, for the three and nine months ended December 31, 2010, the Company had recorded \$27 and \$153 (December 31, 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 6.86% 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 \$2,177 (RMB 14.4 million) as of December 31, 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 nine months periods ended December 31, 2010 was \$599 and \$1,808 (RMB 3.9 million and RMB 11.8 million) (December 31, 2009 - \$546 or RMB 3.5 million and \$1,109 or RMB 7.0 million), respectively. Total interest subsidy received by the Company during the three and nine month periods ended December 31, 2010 was \$Nil and \$98 (December 31, 2009 - \$Nil and \$126), respectively.

As of December 31, 2010, the Company had a \$91,776 or RMB 608.2 million (March 31, 2010 - \$86,645 or RMB 582.3 million) lines of credit arrangement in place, of which \$41,332 or RMB 273.9 million (March 31, 2010 - \$31,992 or RMB 215.0 million) has been withdrawn.

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Notes to Interim Consolidated Financial Statements

For the three and nine months ended December 31, 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)	95,000	271
Fair value of stock options exercised (i)	-	133
Balance – December 31, 2010	52,235,661	\$ 152,634

- (i) During the three months ended December 31, 2010, 15,000 (95,000 for the nine months ended December 31, 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	820
Fair value of stock options exercised	(133)
Balance – December 31, 2010	\$ 6,389

(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 nine months ended December 31, 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	(95,000)	2.85
Outstanding – December 31, 2010	1,600,000	\$ 6.03

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

<u>As of December 31, 2010</u>				
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$2.85	655,000	0.38	655,000	\$2.85
\$7.69	60,000	1.50	60,000	\$7.69
\$8.46	30,000	1.50	30,000	\$8.46
\$9.93	40,000	2.00	26,667	\$9.93
\$9.48	475,000	2.42	333,333	\$9.48
\$6.40	165,000	8.25	55,000	\$6.40
\$6.38	175,000	9.42	NIL	N/A
\$6.03	1,600,000	2.89	1,160,000	\$5.48

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 nine months ended December 31, 2010 was \$115 and \$265 (December 31, 2009 - \$Nil), respectively.

For the three and nine months ended December 31, 2010, total stock-based compensation expense on the options granted prior to the period ended June 30, 2010 was \$146 and \$555 (December 31, 2009 - \$391 and \$1,347), respectively.

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For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

11. Accumulated Other Comprehensive Income (Loss)

	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	3,864
Balance – December 31, 2010	\$ (2,342)

12. Segmented Information

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

13. Commitments

Purchase commitments for raw materials and supplies for the next twelve months in the amount of approximately \$82.6 million (RMB 547.6 million) exist as of December 31, 2010 (March 31, 2010 - \$92.3 million or RMB 620.3 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 40.9 million) exist as of December 31, 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 December 31, 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 the statement of operations.

At December 31, 2010, through its wholly-owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of \$75,599 (March 31, 2010 - \$55,263), restricted cash of \$8,823 (March 31, 2010 - \$13,819), accounts receivable of \$31,503 (March 31, 2010 - \$36,649), other receivables of \$1,090 (March 31, 2010 - \$2,818), accounts payable and accrued liabilities of \$17,691 (March 31, 2010 - \$9,507), notes payable of \$10,533 (March 31, 2010 - \$13,813), and bank loans of \$41,950 (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 \$4,683, effect on the statement of comprehensive income in C\$(December 31, 2009 - \$8,918). The Company also had bank loans of \$3,908 (March 31, 2010, 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 \$384 effect on the statement of operations in C\$ (December 31, 2009 - \$Nil).

At December 31, 2010, through its wholly-owned subsidiary, H.K. Migao, the Company had cash and cash equivalents of \$4 (March 31, 2010 - \$4,011), and short-term loans of \$957 (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 \$95 effect on the statement of operations in C\$ (December 31, 2009 - \$11).

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For the three and nine months ended December 31, 2010 and 2009

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

(Unaudited)

14. Financial Instruments Risks - continued

Market Risk – continued

Foreign currency risk - continued

At December 31, 2010, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalents of \$51 (March 31, 2010 - \$Nil), and accounts payable and accrued liabilities of \$26 (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 \$3 effect on the statement of operations in C\$ (December 31, 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 it is reasonably possible for interest rates 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 December 31, 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 December 31, 2010 and March 31, 2010.

December 31, 2010

Current	90 – 180 days	Past Due		Carrying value on the balance sheet
		180 – 365 days	365 days +	
\$27,674	\$2,173	\$1,256	\$400	\$31,503

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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 December 31, 2010, the Company's cash and cash equivalents balance was \$75,822 (March 31, 2010 - \$60,221) and working capital balance was \$206,419 (March 31, 2010 - \$189,451). As at December 31, 2010, short-term loans in the amount of \$46,378 (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 and notes payable 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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(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.

16. Economic Dependence

During the quarter ended December 31, 2010, the Company switched to a different major supplier for raw material purchases. As of December 31, 2010, \$62.4 million was prepaid to the new supplier for future raw materials purchases (March 31, 2010 - \$7.1 million was prepaid to a different supplier).

17. Subsequent Events

Subsequent to December 31, 2010 and as of February 9, 2011, 10,000 stock options were exercised for gross proceeds of \$29.

On January 19, 2011, the Company announced the commencement of production at the newly constructed 40,000 tonne per year potassium nitrate joint venture facility in Sichuan Province. The facility is jointly owned by Migao and Sociedad Quimica y Minera de Chile S.A.