

Migao Corporation

Interim Condensed Consolidated Financial Statements

First Quarter ended June 30, 2011
(Expressed in Canadian dollars)
(Unaudited)

Migao Corporation

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For the three months ended June 30, 2011

(Unaudited)

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Migao Corporation

Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars)
(Unaudited)

	June 30, 2011	March 31, 2011 (Note 17)	April 1, 2010 (Note 17)
Assets			
Current assets			
Cash and cash equivalents	\$ 20,486	\$ 26,007	\$ 60,221
Restricted cash (note 3)	18,834	9,201	13,819
Trade and other receivables	75,279	46,345	36,649
Prepayments, deposits and other assets (note 4)	140,598	57,757	30,743
Inventory (note 5)	49,966	56,600	120,181
Income taxes receivable	750	-	-
Due from related party (note 6)	-	-	28
Due from joint venture partner (notes 7)	1,584	1,730	1,270
	307,497	197,640	262,911
Prepayments, deposits and other assets (note 4)	2,442	96,255	904
Plant and equipment (note 8)	75,687	71,114	57,915
Land use rights (note 9)	21,055	19,139	19,069
Deferred tax assets	4,255	2,614	2,771
	\$ 410,936	\$ 386,762	\$ 343,570
Liabilities			
Current liabilities			
Loans (note 10)	\$ 50,632	\$ 46,578	\$ 40,831
Accounts payable and accrued liabilities (note 9)	18,845	10,353	10,591
Notes payables (note 3)	14,633	9,944	13,813
Customer deposits	8,086	10,154	7,219
Income taxes payable	1,402	2,661	1,734
Due to joint venture partner (note 7)	1,222	1,216	-
	94,820	80,906	74,188
Deferred tax liabilities	3,961	2,420	1,282
	98,781	83,326	75,470
Equity			
Share capital (note 11)	154,750	155,417	152,230
Contributed surplus	5,903	5,721	5,702
Foreign currency translation reserves	(385)	(1,822)	-
Retained earnings	151,887	144,120	110,168
	312,155	303,436	268,100
Commitments (note 13)			
	\$ 410,936	\$ 386,762	\$ 343,570

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

Approved on behalf of the Board of Directors on September 7, 2011

Signed by "Guocai Liu"
Director

Signed by "Keith Attoe"
Director

Migao Corporation

Interim Condensed Consolidated Statements of Operations and Comprehensive Income

For the three months ended June 30, 2011 and 2010
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	June 30, 2011	June 30, 2010 (Note 17)
Revenues	\$ 100,521	\$ 66,256
Cost of goods sold (notes 5 8, and 9)	83,359	48,757
Gross profit	17,162	17,499
General and administrative (notes 8 and 9)	3,989	3,223
Selling	2,530	2,366
Pre-operating costs	238	246
Other income	(113)	(229)
	6,644	5,606
Operating Profit	10,518	11,893
Finance costs	737	748
Foreign exchange loss	(17)	(54)
Profit before income taxes	9,798	11,199
Provision for income taxes	2,031	2,423
Profit for the period	7,767	8,776
Other comprehensive income		
Exchange difference on translation of foreign operations	1,437	13,860
Total comprehensive income	\$ 9,204	\$ 22,636
Income per share:		
Basic	\$ 0.15	\$ 0.17
Diluted	\$ 0.15	\$ 0.17
Weighted average number of common shares outstanding:		
Basic	52,863,830	52,140,661
Diluted	52,863,830	52,559,446

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

Migao Corporation

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Share capital	Foreign currency translation reserves	Contributed Surplus	Retained earnings	Total equity
Balance, April 1, 2011 (note 17)	\$ 155,417	\$ (1,822)	\$ 5,721	\$ 144,120	\$ 303,436
Profit for the period	-	-	-	7,767	7,767
Share-based payments	-	-	182	-	182
Exchange differences on translation of foreign operations	-	1,437	-	-	1,437
Share buy back	(667)	-	-	-	(667)
Balance, June 30, 2011	\$ 154,750	\$ (385)	\$ 5,903	\$ 151,887	\$ 312,155
Balance, April 1, 2010 (note 17)	\$ 152,230	\$ -	\$ 5,702	\$ 110,168	\$ 268,100
Profit for the period	-	-	-	8,776	8,776
Share-based payments	-	-	298	-	298
Exchange differences on translation of foreign operations	-	13,860	-	-	13,860
Balance, June 30, 2010 (note 17)	\$ 152,230	\$ 13,860	\$ 6,000	\$ 118,944	\$ 291,034

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

Migao Corporation

Interim Condensed Consolidated Statements of Cash Flows

For the three months ended June 30, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2011	June 30, 2010 (Note 17)
Cash flows from operating activities		
Profit for the period	\$ 7,767	\$ 8,776
Items not affecting cash:		
Depreciation and amortization	1,620	1,329
Share-based payments	182	298
Deferred taxes	(100)	(43)
Amortization of transaction costs	5	74
Changes in non-cash working capital items:		
Restricted cash	(9,571)	3,086
Trade and other receivable	(28,658)	4,152
Prepayments, deposits, and other assets	(2,220)	35
Inventory	21,883	12,209
Due from joint venture partner	154	1,270
Accounts payable and accrued liabilities	7,767	3,397
Notes payable	4,633	(3,081)
Customer deposits	(2,111)	(1,025)
Income taxes payable	(1,270)	264
Income taxes receivable	(748)	(369)
	(667)	30,372
Cash flows from investing activities		
Purchase of plant and equipment	(6,228)	(2,501)
Payments for land use rights	(1,902)	-
	(8,130)	(2,501)
Cash flows from financing activities		
Proceeds from bank loans	19,473	16,320
Repayment of bank loans	(15,635)	(12,045)
Payment on share buyback	(667)	-
	3,171	4,275
Effect of foreign exchange rate changes on cash and cash equivalents	105	3,806
Increase in cash and cash equivalents	(5,521)	35,952
Cash and cash equivalents, beginning of period	26,007	60,221
Cash and cash equivalents, end of period	\$ 20,486	\$ 96,173

Migao Corporation

Interim Condensed Consolidated Statements of Cash Flows - continued

For the three months ended June 30, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

	June 30, 2011		June 30, 2010
Cash and cash equivalents consist of:			
Cash on hand	\$ 18,096	\$	29,306
Term deposit	43		40
Bank notes	2,347		66,827
	\$ 20,486	\$	96,173

Other disclosures:

Interest paid	\$ 819	\$	668
Tax paid	\$ 4,026	\$	2,319
Tax refunded	\$ -	\$	-
Interest subsidy received	\$ -	\$	98

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

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

1. Nature of Operations

Migao Corporation (“the Company” or “Migao”) was incorporated under the laws of the Province of Ontario on December 29, 1997. The address of the Company’s registered office is 8 King Street East, Suite 1108, Toronto, Ontario, M5C 1B5. Migao, through its wholly-owned subsidiaries and 50% owned joint venture, is a manufacturer of specialty potash-based fertilizers, produced at its six operational facilities in the People’s Republic of China (“PRC”).

The Company

Migao holds 100% of the issued and outstanding capital of H.K. Migao Industry Limited (“H.K. Migao”), which in turn holds 100% of the issued and outstanding capital of Migao International (Singapore) Pte. Ltd. (“Migao Singapore”), Sichuan Migao Chemical Fertilizer Industry Co., Ltd. (“Sichuan Migao”), Guangdong Migao Chemical Co., Ltd. (“Guangdong Migao”), Liaoning Migao Chemical Co., Ltd. (“Liaoning Migao”), Migao Chemical Industry (Shanghai) Co., Ltd. (“Shanghai Migao”), Migao Chemical (Changchun) Co., Ltd. (“Changchun Migao”), and Migao Chemical (Tianjin) Co., Ltd. (“Tianjin Migao”) (collectively, the “Subsidiaries”).

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

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

2. Significant Accounting Policies

Statement of compliance

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Company expects to adopt in its financial statements as at and for the year ending March 31, 2012. Accordingly they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards (“IFRS”) as issued by IASB and interpretations of the International Financial Interpretations Committee (“IFRIC”).

The Company’s consolidated financial statements for the year ending March 31, 2012 will be the first annual consolidated financial statements that comply with IFRS. The Company will ultimately prepare its opening IFRS statement of financial position by applying existing IFRS standards with an effective date of March 31, 2012 or prior. Accordingly, the opening IFRS statement of financial position and the March 31, 2011 comparative statement of financial position presented in the consolidated financial statements for the year ending March 31, 2012 may differ from those presented at this time.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Statement of compliance - continued

As these interim condensed consolidated financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in these financial statements for the comparative annual period.

The Company has applied IFRS in its financial reporting with effect from April 1, 2010, the transition date, in accordance with the transitional provisions set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 requires that a first-time adopter retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. The items relevant to the Company's reporting are disclosed in Note 17.

These financial statements were authorized for issuance by the Board of Directors of the Company on September 7, 2011.

Basis of Measurement

These consolidated financial statements of Migao have been prepared under the historical cost convention except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired and disposed of during the year are included in the consolidated statement of operations and comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by the Company.

Investments in and operations of joint venture are accounted for by the proportionate consolidation method. The Company records its proportionate share of assets, liabilities, revenue and operating costs of the joint venture.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Basis of consolidation - continued

All intra-group transactions, balances, income and expense are eliminated in full on consolidation.

Critical accounting estimates

To prepare financial statements in conformity with IFRS, the Company must necessarily make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions critical to determining the carrying values of assets and liabilities are set out below:

Stock based compensation: Management estimates some of the inputs, such as future stock price volatility, expected time until exercise, and forfeiture rate, used to calculate the fair value of stock option granted during the year.

Useful lives and residual values of plant and equipment and land use rights: Management estimates the useful lives and residual values to calculate depreciation expense using the straight line method.

Allowance for impairment of trade receivables: Management assesses the credit worthiness and past collection history of each individual customer to arrive at and provide for an allowance for impairment of receivables.

Write-down of inventories: Management determined the write-down for inventories that are obsolete or for which cost is higher than net realizable value. These estimates are made with reference to analysis of aged inventories, projections of expected future salability of goods and management experience and judgment.

Deferred tax assets: Management forecasts its profits and cash flows which are then used to assess whether or not a deferred tax asset can be recognized in the consolidated financial statements.

Estimated impairment of long-term assets: Management reviews long-term assets' residual values and useful lives at the end of each reporting period and write down the asset's carrying amount to its estimated recoverable amount if the carrying amount is greater.

Cash equivalents

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

Prepayments and deposits

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

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Inventory

The Company values raw materials and finished goods at the lower of cost, determined using the weighted average method, and net realizable value. The cost of finished goods comprises the cost of direct materials and, where applicable, direct labour costs and overhead costs. Net realizable value represents the anticipated selling price less estimated costs necessary to make the sales.

Investment in joint venture

A joint venture can take the form of a jointly controlled entity, jointly controlled operation or jointly controlled asset. All joint ventures involve a contractual arrangement that establishes joint control. A jointly controlled entity is an entity in which the Company shares joint control over the strategic, financial and operating decisions with one or more venturers through the establishment of a corporation, partnership or other entity. A jointly controlled operation involves the use of the assets and resources of the venturers rather than the establishment of a corporation, partnership or other entity. The operation incurs its own expenses and liabilities and raises its own finances. A jointly controlled asset involves joint control of one or more of the assets acquired or contributed for the purpose of the joint venture. Each venturer takes on a share of the output from the assets and bears an agreed share of the expenses.

The Company reports its joint venture interest in SQM JV using the proportionate consolidation method. The Company's proportionate share of the assets, liabilities, revenues, expenses, and cash flows of the joint venture are included in the consolidated financial statements. Where the Company transacts with the joint venture, it eliminates unrealized profits and losses to the extent of its own interest.

Financial assets

The Company recognizes and derecognizes all financial assets on the trade date, where their purchase or sale are under a contract whose terms require delivering the financial asset within the timeframe established by the market concerned, and initially measures them at fair value, plus transaction costs, except for financial assets classified as at fair value through profit or loss, which the Company initially measures at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Financial assets- continued

Cash and cash equivalents and restricted cash are classified as FVTPL and are stated at fair value, recognizing in profit or loss any gains or losses arising on remeasurement. Trade receivables, other receivables, and amounts due from related parties having fixed or determinable payments and not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables for which recognizing interest would be immaterial.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the investment's estimated future cash flows have been affected.

For certain categories of financial asset, such as trade receivables, assets assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions correlating with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The financial asset's carrying amount is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. No allowance was recognized for the current and previous periods.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Financial liabilities

The Company classifies its financial liabilities, which include loans, customer deposits, notes payable and accounts payable and accrued liabilities, as 'other financial liabilities'. It initially measures these at fair value, net of transaction costs, and subsequently measures them at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Plant and equipment

Plant and equipment are stated in the statement of financial position at their cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized over the estimated useful life of each component of an item of property and equipment, using the straight-line method and the following annual rates:

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

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each fiscal year-end, accounting for the effect of any changes in estimate on a prospective basis.

The gain or loss arising on disposing of or retiring an item of plant and equipment is determined as the difference between the sales proceeds and the asset's carrying amount and is recognized in profit or loss.

Properties in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognized impairment loss. Cost includes purchase price of raw materials, consumables used, direct labour and other costs directly attributable to constructing the assets and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land use rights

Land use rights, which are acquired intangible assets, are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, being the terms of the land use rights set by the Chinese government. The Company reviews the estimated useful life and amortization method at the end of each annual reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Impairment of long-lived assets

At the end of each fiscal year-end, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication those assets have suffered an impairment loss. If any such indication exists, the Company estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue recognition

The Company recognizes revenue from the sale of its products when goods are shipped and the following criteria are met: the risks and rewards of ownership, including managerial involvement, have transferred to the buyer; the amount of revenue can be measured reliably; the receipt of economic benefits is probable; and costs incurred or to be incurred can be measured reliably. Payments received in advance for orders that do not yet qualify for recognition under the Company's policies are recorded as customer deposits.

Borrowing costs

Borrowing costs directly attributable to acquiring, constructing or producing qualifying assets are capitalized as part of the cost of those assets until the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Pre-operating costs

All expenditures incurred prior to the commencement of commercial operations are expensed.

Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and it can make a reliable estimate of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Government grants

Government grants, including interest subsidies and value-added tax refunds, are not recognized until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are deducted from the carrying amount of the assets and recognized as income over the life of a depreciable asset by way of a reduced depreciation charge.

Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they were intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

Share-based payments

The Company has in effect a Stock Option Plan ("the Plan"), described in note 11. It measures equity-settled share-based payments to employees and others providing similar services at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, and is credited to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds together with the amount originally credited to contributed surplus are credited to share capital.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Share-based payments - continued

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where this fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted, as at the date the Company obtains the goods or the counterparty renders the service.

Foreign exchange

The individual financial statements of the China based subsidiaries and SQM JV are presented in the Chinese Renminbi (RMB), the currency of the primary economic environment in which they operate (their functional currency). For the purpose of the consolidated financial statements, the results and financial position of each subsidiary and SQM JV are expressed in Canadian dollars, which is the Company's functional currency and the presentation currency for the consolidated financial statements. The subsidiaries have no material activities in any currencies other than the RMB. The functional currency of the other subsidiaries is the Canadian dollar.

For the purpose of presenting consolidated financial statements, the subsidiaries' assets and liabilities are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated as foreign currency translation reserve in equity.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are translated to the functional currency of each entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position sheet date are translated at the exchange rates at the end of the reporting period. Non-monetary items which are measured using historical cost in a foreign currency are retranslated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income taxes

Income tax expense represents the sum of the taxes currently payable and deferred taxes.

Current taxes

The taxes currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current taxes is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Income taxes - continued

Deferred taxes

Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in computing taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with its investments in subsidiaries and associates, and the joint venture interest, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed, using the treasury stock method, to show the potential reduction in earnings per share that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

New Pronouncements Adopted

Accounting standards effective for periods beginning on or after April 1, 2011 have been adopted as part of the transition to IFRS.

Accounting standards issued but not yet applied

IFRS 13, *Fair Value Measurement* (IFRS 13), was issued in May 2011. This standard addresses the definition of fair value, sets out a single standard framework for measuring fair value and requires certain disclosures about fair value measurements.

IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), was issued in May 2011. This standard addresses disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance-sheet vehicles.

IFRS 11, *Joint Arrangements* (IFRS 11), was issued in May 2011. This standard is intended to provide for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

IFRS 10, *Consolidated Financial Statements* (IFRS 10), was issued in May 2011. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 9, *Financial Instruments* (IFRS 9), was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Accounting standards issued but not yet applied - continued

The above standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 7, *Financial Instruments - Disclosures* (IFRS 7), was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact on its consolidated financial statements.

IAS 1, *Presentation of Financial Statement* (IAS 1), was issued in June 2011 and required presenting items in other comprehensive income in two categories: item that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or as two separate statement of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact on its consolidated financial statements.

3. Restricted Cash

As at June 30, 2011, March 31, 2011 and April 1, 2010, the Company had restricted cash pledged for the following credit facilities:

	June 30, 2011	March 31, 2011	April 1, 2010
Notes payable deposits ⁽ⁱ⁾	\$ 14,022	\$ 9,201	\$ 13,819
Letter of Credit deposits ⁽ⁱⁱ⁾	4,812	-	-
Total	\$ 18,834	\$ 9,201	\$ 13,819

- (i) 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 \$14,633 as of June 30, 2011 (March 31, 2011 - \$9,944, April 1, 2010 - \$13,813). The restrictions on the deposited cash will be released between July 2011 and December 2011, when the notes payable are redeemed.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

3. Restricted Cash - continued

- (ii) Deposits are pledged as security for two irrevocable letter of credits obtained (note 10 (1)) to purchase raw materials for a total of \$4,812 as of June 30, 2011 (March 31, 2011- \$Nil, April 1, 2010- \$Nil). The restriction on the deposits will be released between November 2011 and December 2011, when the letter of credits are repaid.

4. Prepayments, Deposits and Other Assets

	June 30, 2011	March 31, 2011	April 1, 2010
Current:			
Prepayments for inventory	\$ 36,723	\$ 50,145	\$ 25,687
Receivables from Potash Export Corporation ("PEC")	95,394	-	-
Prepayments for transportation services	62	121	328
Deposits for the supply of utilities	744	737	671
Deposits on obtaining sales contracts	1,244	1,917	899
VAT receivables	3,037	1,931	2,181
Government subsidy	608	570	174
Vendor refund	-	1,907	299
Advances made to PRC government	1,968	-	-
Other receivables and deposits	818	429	504
Prepayments, deposits and other assets – current	\$ 140,598	\$ 57,757	\$ 30,743
Long-Term:			
Prepayments for inventory	\$ -	\$ 94,947	\$ -
Prepayments for construction costs	1,365	392	132
Prepayments for machinery	989	807	659
Prepayments for land use right	88	109	113
Prepayments, deposits and other assets – long-term	\$ 2,442	\$ 96,255	\$ 904

In order to secure a stable supply and favorable pricing of raw materials, the Company entered into a long-term purchase contract with PEC to purchase 500,000 tonnes of potassium chloride every year starting from calendar year 2013. Under terms of the agreement, the Company is required to make advance payments that are prepayments in nature. As of June 30, 2011, prepayments of \$95,394 (equivalent to US\$ 100.0 million) have been paid through the Company's individual subsidiaries in the PRC. During the year ended March 31, 2011, the CEO of the Company pledged his personal shares of the Company (17,746,612 shares) as a direct guarantee of the recoverability of this prepayment. As at June 30, 2011, the approximate market value of the pledged shares based on June 30, 2011 share closing price of \$4.44 is \$78,795.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

4. Prepayments, Deposits and Other Assets - continued

Subsequent to the current quarter, the Company has negotiated with PEC for the refund of the US\$ 100.0 million prepayment advanced during the year ended March 31, 2011. The terms of the original agreement with PEC remain the same. As of September 7, 2011, PEC has refunded approximately US\$ 30.0 million of the prepayments to the Company and has agreed to refund another US\$ 35 million by October 31, 2011 and the remaining US\$ 35 million by December 31, 2011. As such, the Company has reclassified this amount from a long-term prepayment to a current receivable from PEC in the consolidated statement of financial position as of June 30, 2011 (see note 18).

5. Inventory

	June 30, 2011	March 31, 2011	April 1, 2010
Raw materials	\$ 18,807	\$ 14,248	\$ 14,726
Finished goods	8,895	5,867	5,765
Packing and other materials	1,095	476	308
Goods in transit	21,095	35,907	99,346
Work in progress	74	102	36
	\$ 49,966	\$ 56,600	\$ 120,181

During the three months ended June 30, 2011, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (June 30, 2010- \$Nil). Inventory included in cost of goods sold for the three months ended June 30, 2011 was \$83,359 (June 30, 2010 - \$48,757).

6. Related Party Balances and Transactions

The Company had the following related party balances:

	June 30, 2011	March 31, 2011	April 1, 2010
Amount due from:			
Beijing Wei De Sen ("BWDS")	\$ -	\$ -	\$ 28

Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") contributed administrative services to the Company and because the cost of these services was immaterial, the values of these contributed services were not recognized in the financial statements. In addition, LYEDC has provided corporate guarantees on \$4,476 (March 31, 2011 - \$4,456, April 1, 2011 - \$5,952) of the Company's short-term bank loans outstanding as of June 30, 2011 (note 10).

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

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

7. Joint Venture

The Company has a 50% interest in the SQM JV, a joint venture established in the PRC for the production of potassium nitrate. There has been no change in the Company's ownership or voting interest in the above joint venture for the reported periods.

SQM JV purchased ammonium nitrate internally from the Company before the end of May, 2011, and then SQM JV started to purchase from the market. During the three months ended June 30, 2011, the Company sold ammonium nitrate to SQM JV for \$858 (3,128 tonnes) (June 30, 2010 - \$Nil). In addition, the Company received ammonium nitrate from SQM JV of \$1,702 (5,848 tonnes) (June 30, 2010 - \$Nil). All transactions were recorded at carrying value.

As at June 30, 2011, SQM JV owes the Company \$3,168 (March 31, 2010 - \$3,460, April 1, 2010 - \$2,540) for ammonium nitrate purchased from the Company as well as for natural gas and salaries expenses the Company paid on its behalf.

As at June 30, 2011, the other venturer, SQM, had contributed in excess of the Company's contribution and the advanced funding of \$1,222 (March 31, 2011 - \$1,216, April 1, 2011 - \$Nil) is shown on the statement of financial position as due to joint venture partner. As at April 1, 2010, the Company had contributed in excess of SQM's contribution and the advanced funding of \$1,270 was shown on the statement of financial position as due from joint venture partner.

Summarized financial information in respect of the Company's share in the joint ventures is set out below:

	June 30,	March 31,	April 1,
	2011	2011	2010
Cash and cash equivalents	\$ 486	\$ 172	\$ 2,689
Other non-cash current assets	4,189	3,161	410
Proportionate share of current assets	4,675	3,333	3,099
Plant and equipment	4,297	4,336	30
Construction in progress	-	-	227
Land use rights	1,107	1,090	1,072
Proportionate share of long-term assets	\$ 5,404	\$ 5,426	\$ 1,329
Proportionate share of total assets	\$ 10,079	\$ 8,759	\$ 4,428

Migao Corporation

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For the three months ended June 30, 2011 and 2010

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(Unaudited)

7. Joint Venture - continued

	June 30, 2011	March 31, 2011	April 1, 2010
Accounts payable and accrued liabilities	\$ 1098	\$ 656	\$ 150
Notes payable	907	33	-
Customer deposits	325	269	-
Due to Sichuan Migao	1,584	1,730	-
Proportionate share of current liabilities	\$ 3,914	\$ 2,688	\$ 150
Proportionate share of net assets of joint ventures	\$ 6,165	\$ 6,071	\$ 4,278

For the three month periods ended June 30, 2011 and 2010, the Company's share of the results of operations of the SQM JV is as follows:

	June 30, 2011	June 30, 2010
Total revenue	\$ 2,522	\$ -
Total cost of goods sold	\$ 2,251	\$ -
Total expenses	\$ 210	\$ 50
Proportionate share of net income (loss) for the period	\$ 66	\$ (50)

The Company's 50% share of the joint venture's commitments relating to capital expenditure and purchases of raw materials as at June 30, 2011 totaled approximately \$6 and \$89 (March 31, 2011 - \$17 and \$508, April 1, 2010 - \$1,347 and \$Nil), respectively.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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(Unaudited)

8. Plant and Equipment

Movements in the carrying value were as follows:

	Building and improvements	Machinery and equipment	Vehicles	Office equipment	Constructi on in progress ("CIP")	Total
<i>Cost</i>						
Balance at April 1, 2010	\$ 32,066	\$ 32,870	\$ 1,343	\$ 619	\$ 2,339	\$ 69,237
Additions	943	558	583	128	16,534	18,746
Transfer from CIP	8,508	4,517	-	43	(13,068)	-
Disposals	-	-	(34)	-	-	(34)
Effect of foreign currency exchange differences	(253)	(167)	(14)	(4)	(72)	(510)
Balance at March 31, 2011	41,264	37,778	1,878	786	5,733	87,439
Additions	1,343	205	209	3	3,983	5,743
Transfer from CIP	4,821	4	-	-	(4,825)	-
Disposals	-	-	-	-	-	-
Effect of foreign currency exchange differences	208	178	10	4	24	424
Balance at June 30, 2011	\$ 7,636	\$ 8,165	\$ 2,097	\$ 793	\$ 4,915	\$ 93,606

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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(Unaudited)

8. Plant and Equipment - continued

	Building and improvements	Machinery and equipment	Vehicles	Office equipment	Constructi on in progress	Total
Accumulated depreciation and impairment						
Balance at April 1, 2010	\$ 3,255	\$ 6,972	\$ 747	\$ 348	\$ -	\$ 11,322
Depreciation expense	1,639	3,138	260	87	-	5,124
Disposals	-	-	(10)	-	-	(10)
Effect of foreign currency exchange differences	(36)	(67)	(6)	(2)	-	(111)
Balance at March 31, 2011	4,858	10,043	991	433	-	16,325
Depreciation expense	535	890	69	23	-	1,517
Effect of foreign currency exchange differences	22	47	5	3	-	77
Balance at June 30, 2011	\$ 5,415	\$ 10,980	\$ 1,065	\$ 459	\$ -	\$ 17,919
Net book amount						
At April 1, 2010	\$28,811	\$25,898	\$596	\$271	\$2,339	\$57,915
At March 31, 2011	\$36,406	\$27,735	\$887	\$353	\$5,733	\$71,114
At June 30, 2011	\$42,221	\$27,185	\$1,032	\$334	\$4,915	\$75,687

Amortization expense for the three months ended June 30, 2011 was \$1,517 (June 30, 2010 - \$1,231) and is included in cost of goods sold and general and administrative expense.

During the three months ended June 30, 2011, amounts incurred on the Company's construction projects include \$20 of capitalized borrowing costs (June 30, 2010 - \$2), including both the cost of project-specific borrowings and an allocation of the cost of general borrowings, calculated using a capitalization rate of between 4.86% to 5.58%.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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(Unaudited)

9. Land Use Rights

	Land use rights
Cost	
Balance at April 1, 2010	\$ 20,305
Acquisition of land use rights	515
Effect of foreign currency exchange differences	(52)
Balance at March 31, 2011	20,768
Acquisition of land use rights	1,922
Effect of foreign currency exchange differences	102
Balance at June 30, 2011	\$ 22,792
Accumulated amortization and impairment	
Balance at April 1, 2010	\$ 1,236
Amortization	401
Effect of foreign currency exchange differences	(8)
Balance at March 31, 2011	1,629
Amortization	103
Effect of foreign currency exchange differences	5
Balance at June 30, 2011	\$ 1,737
Net book amount	
At April 1, 2010	\$ 19,069
At March 31, 2011	\$ 19,139
At June 30, 2011	\$ 21,055

As of June 30, 2011, the Company had fifteen (March 31, 2011 – fourteen, April 1, 2010 – fourteen) land leases from the Chinese government plus an interest in a joint venture holding one land lease. Three of the land leases are for future manufacturing and administrative facilities and the remaining twelve land leases are for existing manufacturing and administrative facilities. All land leases have terms of fifty years with remaining terms between 44 and 50 years.

Amortization expense for the three months ended June 30, 2011 was \$103 (June 30, 2010 - \$98) and is included in cost of goods sold and general and administrative expense.

During the year ended March 31, 2011, the Company purchased a building from a third party located on 32,000 square meters of land. As of June 30, 2011, the contract to purchase for the relevant land use right has not been signed as the lease price of the land use right is still under negotiation, but the Company has control of the land.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

9. Land Use Rights - continued

As of June 30, 2011, the Company had not obtained the land use right certificates for four (March 31, 2011 – three, April 1, 2010 - four) of the land leases and approximately \$548 (March 31, 2011 – \$545, April 1, 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 ready for construction.

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

10. Loans

As at June 30, 2011, the Company has short-term bank loans outstanding totaling \$50,632 (March 31, 2011 - \$46,578, April 1, 2010 - \$40,831) for working capital purposes.

	June 30, 2011	March 31, 2011	April 1, 2010
Bank loan due on March 28, 2012, bearing interest at 90% of Prime rate in China (“PC”), being 5.68% at quarter end and secured by a corporate guarantee from Sichuan Migao (2)	\$ 1,194	\$ 1,188	-
Bank loan due on July 6, 2011, bearing fixed interest of 4.78% and secured by a corporate guarantee from Guangdong Migao (2)	1,790	1,782	-
Bank loan due on July 15, 2011, bearing interest at 105% of PC, being 6.63% at quarter end and secured by corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company	2,238	2,228	-
Bank loan due on July 15, 2011, bearing interest at 105% of PC, being 6.63% at quarter end and secured by corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company	2,238	2,228	-
Bank loan due on July 14, 2011, bearing fixed interest of 4.78% and secured by a corporate guarantee from Guangdong Migao (2)	2,686	2,673	-

Migao Corporation

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(Unaudited)

10. Loans – continued

	June 30, 2011	March 31, 2011	April 1, 2010
Bank loan due on July 15, 2011, bearing interest at 90% of PC, being 5.68% at quarter end and secured by two land use rights of Sichuan Migao (2) Corporate guarantee from Guangdong Migao (2)	2,686	2,673	-
Bank loan due on January 13, 2012, bearing fixed interest of 5.81% at quarter end and secured by certain Buildings, one land use right of Sichuan Migao and	2,984	2,970	-
Bank loan due on June 28, 2011, bearing interest at 90% of PC, being 5.45% at March 31, 2011 and secured by corporate guarantees from Sichuan Migao (2)	-	2,970	-
Bank loan due on December 29, 2011, bearing interest at 95% of PC, being 5.56% at quarter end and secured by corporate guarantees from Sichuan Migao (1) (2)	3,368	-	-
Bank loan due on July 29, 2011, bearing interest at 95% of PC, being 5.99% at quarter end and secured by corporate guarantees from Sichuan Migao (2)	3,432	3,415	-
Bank loan due on Nov. 16, 2011, bearing fixed interest of 6.00% at quarter end and secured by corporate guarantees from Sichuan Migao(1) (2)	3,461	-	-
Bank loan due on July 4, 2011, bearing interest at Hong Kong inter-bank 6 months offer rate (“HIBOR”) + 3%, being 3.33% at quarter end and secured by Corporate guarantee from HK Migao (2) (5)	3,864	3,846	-
Bank loan due on March 25, 2012, bearing interest at 80% of PC, being 5.05% at quarter end and secured by a corporate guarantee from Sichuan Migao (2)	5,968	-	-
Bank loan due on April 28, 2012, bearing fixed interest of 7.57% and secured by a corporate guarantee from Sichuan Migao (2) (3)	6,714	-	-
Bank loan due on April 2, 2011, bearing fixed interest of 5.31% and secured by a corporate guarantee from Sichuan Migao (2)	-	5,940	-
Bank loan due on April 22, 2011, bearing fixed interest of 5.31% and secured by a corporate guarantee from Sichuan Migao (2) (3)	-	6,683	-

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

10. Loans – continued

	June 30, 2011	March 31, 2011	April 1, 2010
Bank loan due on February 29, 2012, bearing fixed interest of 6.06% and secured by certain buildings, one land use right of Sichuan Migao and corporate guarantee from Guangdong Migao (2)	7,012	6,979	-
Bank loan due on August 10, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 and secured by two land use rights of Sichuan Migao (2)	-	-	1,488
Bank loan due on October 19, 2010, bearing interest at PC, being 5.31% at March 31, 2010 and secured by Corporate guarantees from Sichuan Migao (2) (3)	-	-	1,488
Bank loan due on August 12, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 and secured by two land use rights of Sichuan Migao (2)	-	-	1,190
Bank loan due on September 17, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 with no security required	-	-	2,976
Bank loan due on May 31, 2010, bearing interest at PC, being 5.31% at March 31, 2010 and secured by corporate guarantees from Liaoning Migao and LYEDC, and personal guarantee from the CEO of the Company	-	-	2,976
Bank loan due on June 10, 2010, bearing interest at PC, being 5.31% at March 31, 2010 and secured by certain Buildings, one land use right of Sichuan Migao and Corporate guarantee from Guangdong Migao	-	-	2,976
Bank loan due on June 22, 2010, bearing interest at PC, being 5.31% at March 31, 2010 and secured by corporate guarantees from Sichuan Migao and LYEDC, and personal guarantee from the CEO of the Company	-	-	2,976
Bank loan due on June 22, 2010, bearing interest at 95% of PC, being 5.04% at March 31, 2010 and secured by Corporate guarantees from Sichuan Migao (2)	-	-	2,976
Bank loan due on September 27, 2010, bearing interest at PC, being 5.31% at March 31, 2010 and secured by Corporate guarantees from Sichuan Migao (2) (3)	-	-	3,720

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

10. Loans – continued

	June 30, 2011	March 31, 2011	April 1, 2010
Bank loan due on March 4, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 and secured by Corporate guarantees from Sichuan Migao (2)	-	-	3,720
Bank loan due on March 1, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 and secured by certain Buildings, one land use right of Sichuan Migao and Corporate guarantee from Guangdong Migao (2)	-	-	6,994
Bank loan due on July 1, 2010, bearing interest at 90% of PC, being 4.78% at March 31, 2010 and secured by Corporate guarantees from Sichuan Migao (2)	-	-	7,440
Borrowings from Hong Kong Euro Asia for working capital purpose, due on demand and bearing no interest	1,412	1,424	511
Transaction costs (4)	(415)	(421)	(600)
	\$ 50,632	\$ 46,578	\$40,831

- (1) During the current quarter, the Company obtained two irrevocable letter of credits from a Chinese bank in the aggregate principal of \$9,176. To secure these letter of credits, \$4,812 restricted cash was pledged (note 3) (March 31, 2011 - \$Nil and \$Nil, April 1, 2010 - \$Nil and \$Nil). As of June 30, 2011, totaling of \$6,829 has been withdrew under two letters of credit, for inventories purchases (March 31, 2011 - \$Nil, April 1, 2010 - \$Nil).
- (2) As of June 30, 2011, the Company had a \$109,974 or RMB 737.1 million (March 31, 2011 - \$85,861 or RMB 578.2 million, April 1, 2010 - \$86,645 or RMB 582.3 million) line of credit arrangement in place, of which \$45,159 or RMB 302.7 million (March 31, 2011 - \$41,119 or RMB 276.9 million, April 1, 2010 - \$31,992 or RMB 215.0 million) has been withdrawn.
- (3) 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 \$48,668 (RMB 326.2 million) relating to the bank debt financing were approved and the total transaction costs incurred were \$729 (March 31, 2011 - \$729, April 1, 2010 - \$729). As of June 30, 2011, the total lines of credit outstanding relating to the bank debt financing were \$6,714 (RMB 45.0 million) (March 31, 2011 - \$6,683 or RMB 45.0 million, April 1, 2010 - \$8,184 or RMB 55.0 million). As at June 30, 2011, the Company has recorded \$415 (March 31, 2011 - \$421, April 1, 2010 - \$600) as unamortized transaction costs. Total amortization of the transaction costs for the three months ended June 30, 2011 was \$5 (June 30, 2010 - \$74).

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

10. Loans – continued

- (4) The transaction costs related to the loans withdrawn from the lines of credit are accreted using effective interest rates of 6.77%. Amortization of the transaction costs related to the unused portion of the lines of credit commence when the loans are withdrawn.
- (5) Guangdong Migao has to comply with certain bank covenants in relation to the loan. As of June 30, 2011, Guangdong Migao has met all relevant covenant requirements.

Total loan interest expense during the three months ended June 30, 2011 was \$819 (RMB 5.5 million) (June 30, 2010 - \$668 or RMB 4.4 million). Total interest subsidy granted by the government during the three months ended June 30, 2011 was \$Nil (June 30, 2010 - \$98).

The fair value of all the bank loans is close to their total carrying value because of their short term nature (and/or) because there have been no changes in the Company's own credit-worthiness or in the prevailing environment in which the terms of the loans were agreed. Total carrying value of the pledged assets was \$2,122 (RMB 14.2 million) as of June 30, 2011 (March 31, 2011 - \$2,120 or RMB 14.3 million, April 1, 2010 - \$5,346 or RMB 36.0 million).

11. Share Capital

- (a) **Authorized:**
Unlimited common shares without par value.

- (b) **Issued common shares**

	Number of Shares	Amount
Balance – April 1, 2010	52,140,661	\$ 152,230
Exercise of stock options (i)	750,000	2,137
Fair value of stock options exercised (i)	-	1,050
Balance – March 31, 2011	52,890,661	155,417
Share buyback (ii)	(152,600)	(667)
Balance – June 30, 2011	52,738,061	\$ 154,750

- (i) During the year ended March 31, 2011, 750,000 of the common share purchase options with an exercise price of \$2.85 per common share issued to employees and directors of the Company were exercised. The stock options were originally valued at \$1.40 per option.
- (ii) In June 2011, the Company has agreed to purchase its common shares up to 2,640,000 of the Company's common shares through a normal course issuer bid, and 152,600 common shares have been purchased for a total of \$667 as June 30, 2011.

Migao Corporation

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(Unaudited)

11. Share Capital - continued

(c) 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 – April 1, 2010	1,520,000	\$ 5.80
Granted during the year	175,000	6.38
Exercised during the year	(750,000)	2.85
Outstanding – March 31, 2011 and June 30, 2011	945,000	\$ 8.24

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

As of June 30, 2011

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$7.69	60,000	1.00	60,000	\$7.69
\$8.46	30,000	1.00	30,000	\$8.46
\$9.93	40,000	1.50	40,000	\$9.93
\$9.48	475,000	1.92	475,000	\$9.48
\$6.40	165,000	7.75	110,000	\$6.40
\$6.38	175,000	8.92	58,333	\$6.38
\$8.24	945,000	4.13	773,333	\$8.65

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11. Share Capital - continued

(c) Stock options - continued

During the period ended June 30, 2010, 175,000 options were issued to employees, officers, and directors of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$6.38 per common share. These options have vesting periods of up to three years and an exercise period of up to ten years. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$4.27 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 2.69%; expected volatility 83%; and expected life of 5 years. Stock-based compensation expense on these options for the three months ended June 30, 2011 was \$95 (June 30, 2010 - \$35). For the three months ended June 30, 2011, total stock-based compensation expense on the remaining options granted in prior period was \$87 (June 30, 2010 - \$263).

12. Segmented Information

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions. The Company has one operating segment, being the production and sale of potash-based fertilizer, along with their associated by-products. The majority of the Company's assets and operations are located in the PRC.

13. Commitments

	June 30, 2011	March 31, 2011	April 1, 2010
Purchase commitments for raw materials (including prepayment on raw materials in note 4) and supplies for the next twelve months	\$ 90,984	\$ 60,096	\$ 92,303
Commitments on capital expenditure	10,586	8,098	2,032
Commitment to contribute cash representing the remaining contribution under the joint venture agreement in return for interest in SQM JV	4,339	4,373	4,570

Migao Corporation

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(Unaudited)

13. Commitments - continued

The above contracts are all entered into in the normal course of business. The Company renewed an office lease agreement on October 1, 2009. The term of the new lease is five years from October 1, 2009. The following represents the approximate lease obligation to be met during the 12-month periods ended after June 30, 2011.

2012	\$	105
2013		105
2014		105
2015		<u>27</u>
Total	\$	<u>342</u>

14. Capital Management

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

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

15. 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 RMB. Head office expenditures are generally denominated in C\$. Therefore, the Company's primary currencies include RMB and C\$. The Consolidated Statements of Operations and Comprehensive Income of the Company's global operations are translated into C\$ at the average exchange rates in each applicable year. 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 other comprehensive income.

At June 30, 2011, through its wholly-owned subsidiaries, the Company had the following which were denominated in RMB:

	June 30, 2011	March 31, 2011	April 1, 2010
Cash and cash equivalents	\$ 20,666	\$ 24,292	\$ 55,263
Restricted cash	18,834	9,201	13,819
Trade receivables	75,277	46,340	36,649
Other receivables	99,864	1,427	2,818
Accounts payable and accrued liabilities	18,474	9,659	9,507
Notes payable	14,633	9,944	13,813
Bank loans	45,771	41,729	40,920

Gains and losses arising upon translation of these amounts into C\$ for inclusion in the financial statements are recorded within foreign currency translation reserves, a component of equity. A 10% change in the exchange rate as at June 30, 2011 between C\$ and the RMB on the financial instruments would have a \$13,576 (June 30, 2010 - \$7,066) effect on the statement of comprehensive income in C\$.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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

(Unaudited)

15. Financial Instruments and Risk Management - continued

Market Risk – continued

Foreign currency risk- continued

As at June 30, 2011, through its wholly-owned subsidiary – Guangdong Migao, the Company had the following which were denominated in Hong Kong dollars (“HK\$”):

	June 30, 2011	March 31, 2011	April 1, 2010
Bank loans	\$ 3,864	\$ 3,846	\$ -

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 as at June 30, 2011 between the C\$ and the HK\$ on the financial instrument would have a \$518 effect on the statement of operations in C\$ (June 30, 2010 - \$Nil).

At June 30, 2011, through its wholly-owned subsidiary, H.K. Migao, the Company had the following which were denominated in US\$:

	June 30, 2011	March 31, 2011	April 1, 2010
Cash and cash equivalents	\$ 5	\$ 139	\$ 4,011
Loans	1,410	1,421	361

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 as June 30, 2011 between the C\$ and the US\$ on the financial instruments would have a \$141 effect on the statement of operations in C\$ (June 30, 2010 - \$101).

As at June 30, 2011, through its wholly-owned subsidiary, Migao Singapore, the Company had the following which were denominated in Singapore dollars (“S\$”):

	June 30, 2011	March 31, 2011	April 1, 2010
Cash and cash equivalents	\$ 50	\$ 50	\$ -
Accounts payable and accrued liabilities	24	23	-

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 as at June 30, 2011 between the C\$ and the S\$ on the financial instruments would have a \$3 effect on the statement of operations in C\$ (June 30, 2010 - \$25).

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

15. Financial Instruments and Risk Management - continued

Market Risk - continued

Foreign currency risk - continued

As at June 30, 2011, through its wholly-owned subsidiary, Migao Singapore, the Company had cash and cash equivalent of \$2 (March 31, 2011 - \$5), which were denominated in US\$, and of \$2 (March 31, 2011 - \$2), which were denominated in Euros.

Interest rate risk

The Company is exposed to interest rate risk on its short-term bank loans and does not currently hold any financial instruments that mitigate this risk. Management believes that it is reasonably possible for interest rates to increase or decrease by 0.5%. This would not have a material impact on the statements of operations.

Credit Risk

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

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 trade 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.

As at June 30, 2011, March 31, 2011 and April 1, 2010, the Company does not consider any of its financial assets to be impaired.

The followings are summaries of the Company's aging of trade receivables:

June 30, 2011

Current	90 – 180 days	Past Due		Carrying value
		180 – 365 days	365 days +	
\$67,769	\$5,813	\$1,158	\$539	\$75,279

March 31, 2011

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

Migao Corporation

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15. Financial Instruments and Risk Management - continued

Credit Risk - continued

April 1, 2010

Current	90 – 180 days	Past Due		Carrying value
		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 trade 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 trade 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 June 30, 2011, the Company's cash and cash equivalents balance was \$20,486 (March 31, 2011 - \$26,007, April 1, 2010 - \$ 60,221) and working capital balance was \$212,677 (March 31, 2011 - \$116,734, April 1, 2010 - \$188,723). As at June 30, 2011, loans in the amount of \$50,632 (March 31, 2011 - \$46,578, April 1, 2010 - \$40,831) were outstanding under the Company's credit facilities.

Fair Value

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

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16. 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.

17. Transition to International Financial Reporting Standards

As stated in Note 2, Significant Accounting Policies, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the interim condensed consolidated financial statements for the three months ended June 30, 2011, the comparative information presented in these financial statements and in the preparation of an opening IFRS statement of financial position at April 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 *First-time adoption of IFRS*, in preparing its transitional statements. IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS. The Company has elected to take the following IFRS 1 optional exemptions:

Exemption for cumulative translation differences

IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. This provides relief from determining cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or equity method investee was formed or acquired. The group elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its transition date.

Borrowing costs

This exemption allows the Company to adopt IAS 23, *Borrowing Costs*, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS statement of financial position. The alternative to this exemption would require the Company to retrospectively restate borrowing costs in accordance with IFRS requirements. The Company elected to capitalize borrowing costs on qualifying assets, prospectively from the transition date.

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Borrowing costs - continued

In preparing its opening IFRS consolidated statement of financial position and financial statements for the three months ended June 30, 2011, the Company has adjusted the amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the additional notes that accompany the tables.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of equity at March 31, 2011 and April 1, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		March 31, 2011			April 1, 2010		
Assets							
Current assets							
Cash and cash equivalents		\$26,007	\$ -	\$26,007	\$60,221	\$ -	\$ 60,221
Restricted cash		9,201	-	9,201	13,819	-	13,819
Trade receivables		46,345	-	46,345	36,649	-	36,649
Prepayments, deposits & other assets		57,757	-	57,757	30,743	-	30,743
Inventory		56,600	-	56,600	120,181	-	120,181
Due from related party		-	-	-	28	-	28
Due from joint venture partner		1,730	-	1,730	1,270	-	1,270
Deferred tax assets	17 (b)	1,715	(1,715)	-	1,859	(1,859)	-
		199,355	(1,715)	197,640	264,770	(1,859)	262,911
Prepayments, deposits and other assets		96,255	-	96,255	904	-	904
Plant and equipment	17 (d)(e)	66,237	4,877	71,114	55,748	2,167	57,915
Construction in progress	17 (c)	5,644	(5,644)	-	2,339	(2,339)	-
Land use rights		19,525	(386)	19,139	19,386	(317)	19,069
Deferred tax assets	17 (b)	653	1,961	2,614	829	1,942	2,771
Total assets		\$387,669	\$(907)	\$386,762	\$343,976	\$(406)	\$343,570
Liabilities and Shareholders' Equity							
Current liabilities							
Loans		\$46,578	\$ -	\$46,578	\$ 40,831	\$ -	\$ 40,831
Accounts payable and accrued liabilities		10,353	-	10,353	10,591	-	10,591
Notes payables		9,944	-	9,944	13,813	-	13,813
Customer deposits		10,154	-	10,154	7,219	-	7,219
Income taxes payable		2,661	-	2,661	1,734	-	1,734
Due to joint venture partner		1,216	-	1,216	-	-	-
Deferred tax liabilities	17 (b)	2,364	(2,364)	-	1,131	(1,131)	-
		83,270	(2,364)	80,906	75,319	(1,131)	74,188
Deferred tax liabilities	17 (b)(f)	56	2,364	2,420	151	1,131	1,282
		83,326	-	83,326	75,470	-	75,470
Shareholders' Equity							
Share capital		155,417	-	155,417	152,230	-	152,230
Contributed surplus		5,721	-	5,721	5,702	-	5,702
Retained earnings		151,233	(7,113)	144,120	116,780	(6,612)	110,168
Foreign currency translation reserve	17 (a)	(8,028)	6,206	(1,822)	(6,206)	6,206	-
Total equity		304,343	(907)	303,436	268,506	(406)	268,100
Total liabilities and equity		\$387,669	\$(907)	\$386,762	\$343,976	\$(406)	\$343,570

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of equity at June 30, 2010 :

		Canadian GAAP	Effect of transition to IFRS	IFRS
	Notes	June 30, 2010		
Assets				
Current assets				
Cash and cash equivalents		\$96,173	\$ -	\$96,173
Restricted cash		11,320	-	11,320
Trade receivables		34,208	-	34,208
Prepayments, deposits and other assets		44,663	-	44,663
Inventory		100,953	-	100,953
Due from related party		29	-	29
Income taxes receivable		383	-	383
Deferred tax assets	17 (b)	1,700	(1,700)	-
		289,429	(1,700)	287,729
Prepayments, deposits and other assets		1,771	-	1,771
Plant and equipment	17 (d)(e)	59,467	1,810	61,277
Construction in progress	17 (c)	2,150	(2,150)	-
Land use rights		20,293	(335)	19,958
Deferred tax assets	17 (b)(f)	863	1,825	2,688
Total assets		\$373,973	\$(550)	\$373,423
Liabilities and Shareholders' Equity				
Current liabilities				
Loans		\$47,610	\$ -	\$47,610
Accounts payable and accrued liabilities		13,760	-	13,760
Notes payables		11,318	-	11,318
Customer deposits		6,446	-	6,446
Income taxes payable		2,098	-	2,098
Deferred tax liabilities	17 (b)	985	(985)	-
		82,217	(985)	81,232
Deferred tax liabilities	17 (b)(f)	171	985	1,156
		82,388	-	82,388
Shareholders' Equity				
Share capital		152,230	-	152,230
Contributed surplus		6,000	-	6,000
Retained earnings		125,701	(6,756)	118,945
Foreign currency translation reserve	17 (a)	7,654	6,206	13,860
Total equity		291,585	(550)	291,035
Total liabilities and equity		\$373,973	\$(550)	\$373,423

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of comprehensive income for the year ended March 31, 2011 and for the three months ended June 30, 2010:

	<i>Note</i>	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
		Year ended March 31, 2011			Three months ended June 30, 2010		
Revenues		\$316,937	\$ -	\$316,937	\$66,256	\$ -	\$66,256
Cost of goods sold		246,030	-	246,030	48,757	-	48,757
Gross profit		70,907	-	70,907	17,499	-	17,499
Operating expenses							
Selling		9,921	-	9,921	2,366	-	2,366
General and administrative	17(c)(d)	11,575	1,821	13,396	2,736	487	3,223
Stock-based compensation	17(c)	1,069	(1,069)	-	298	(298)	-
Pre-operating costs		1,679	-	1,679	246	-	246
Finance costs	17(e)	2,126	(88)	2,038	750	(2)	748
Foreign exchange gain		(29)	-	(29)	(54)	-	(54)
Other income		(502)	-	(502)	(229)	-	(229)
		25,839	664	26,503	6,113	187	6,300
Profit before income taxes		45,068	(664)	44,404	11,386	(187)	11,199
Provision for income taxes	17(f)	(10,615)	163	(10,452)	(2,465)	42	(2,423)
Profit for the year		34,453	(501)	33,952	8,921	(145)	8,776
Other comprehensive income:							
exchange difference on translation of foreign operations		(1,822)	-	(1,822)	13,860	-	13,860
Total other comprehensive income		(1,822)	-	(1,822)	13,860	-	13,860
Total comprehensive income for the year		\$32,631	\$(501)	\$32,130	\$22,781	\$(145)	\$22,636
Earnings per share:							
Basic (C\$)		\$0.66		\$0.65	\$0.17		\$0.17
Diluted (C\$)		\$0.65		\$0.64	\$0.17		\$0.17

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of statement of cash flows:

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flows.

References to the IFRS conversion adjustments

(a) Cumulative translation adjustment

The Company has elected to reset the cumulative translation adjustment account to zero as at April 1, 2010. Under Canadian GAAP, as at this date there was a translation reserve of \$6,206 (deficiency) that has been eliminated against retained earnings. Total equity was not changed as a result of this reclassification.

(b) Presentation of deferred tax assets and liabilities

IAS 12 *Income Taxes* does not allow the current portion of deferred taxes to be presented as current on the statement of financial position. Under Canadian GAAP, future income taxes were classified as both current and long term. As a result, the current deferred tax assets of \$1,859 and the deferred tax liabilities of \$1,131 have been reclassified to long term.

(c) Financial statement presentation changes

The transition to IFRS has resulted in financial statement presentation changes. The statement of operations and comprehensive income presents an analysis of expenses recognized in profit or loss using a classification based on their function within the Company. Accordingly, stock-based compensation is no longer presented as a separate item on the statement of operations and comprehensive income but is included as part of general and administrative expenses. In addition, the Company reclassified construction in progress as a class of property and equipment on the statement of financial position.

(d) Depreciation and amortization on plant and land use rights ready for use

IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* requires that depreciation and amortization commences when the asset is in the location and condition necessary for it to operate in the manner intended by management (i.e: ready for use). Under Canadian GAAP, the Company's sulphuric acid plant located in Liaoning Migao and certain land use rights, although ready for use, were not depreciated as production had not started. As a result, additional depreciation of \$189 and \$752 has been recognized for the three months period ended June 30, 2010 and year ended March 31, 2011, respectively.

(e) Borrowing costs

As noted above, the Company elected to capitalize borrowing costs on qualifying assets, prospectively from the transition date. As a result, a total of \$2 and \$88 of borrowing costs were capitalized in plant and equipment for the three months period ended June 30, 2010 and for the year ended March 31, 2011, respectively.

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

(f) Deferred tax

Under Canadian GAAP and IFRS, deferred income tax assets and liabilities are recorded for temporary differences, which are differences between the carrying amounts of assets or liabilities in the statement of financial position and their tax bases. The adjustment to equity and net earnings reflects changes in temporary differences, and thus in the related deferred income tax assets and liabilities, required by adjustments (a) to (e) listed above.

18. Subsequent Event

Subsequent to the current quarter, the Company has negotiated with PEC for the refund of the US\$ 100.0 million prepayment advanced during the year ended March 31, 2011. The terms of the original agreement with PEC remain the same. As of September 7, 2011, PEC has refunded approximately US\$ 30.0 million of the prepayments to the Company and has agreed to refund another US\$ 35 million by October 31, 2011 and the remaining US\$ 35 million by December 31, 2011. As such, the Company has reclassified this amount from a long-term prepayment to a current receivable from PEC in the consolidated statement of financial position as of June 30, 2011 (see note 4).