

Migao Corporation

Interim Condensed Consolidated Financial Statements

Second Quarter ended September 30, 2011 and 2010
(Expressed in Canadian dollars)
(Unaudited)

Migao Corporation

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For the three and six months ended September 30, 2011 and 2010

(Unaudited)

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Migao Corporation

Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	September 30, 2011	March 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 4,904	\$ 26,007
Restricted cash (note 3)	10,703	9,201
Trade and other receivables	94,312	46,345
Prepayments, deposits and other assets (note 4)	133,670	57,757
Inventory (note 5)	87,326	56,600
Income taxes receivable	659	-
Due from joint venture partner (notes 7)	236	1,730
	331,810	197,640
Prepayments, deposits and other assets (note 4)	7,384	96,255
Plant and equipment (note 8)	97,700	71,114
Land use rights (note 9)	22,889	19,139
Deferred tax assets	4,396	2,614
Investment in affiliate (note 2)	1,424	-
	\$ 465,603	\$ 386,762
Liabilities		
Current liabilities		
Loans (note 10)	\$ 63,584	\$ 46,578
Accounts payable and accrued liabilities (note 9)	24,268	10,353
Notes payable (note 3)	13,112	9,944
Customer deposits	11,055	10,154
Income taxes payable	1,038	2,661
Due to joint venture partner (note 7)	-	1,216
Due to related party (note 6)	817	-
	113,874	80,906
Deferred tax liabilities	4,360	2,420
	118,234	83,326
Equity		
Share capital (note 11)	154,161	155,417
Contributed surplus	6,108	5,721
Foreign currency translation reserves	29,257	(1,822)
Retained earnings	157,843	144,120
	347,369	303,436
	\$ 465,603	\$ 386,762

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

Approved on behalf of the Board of Directors on November 14, 2011

Signed by "Guocai Liu"
Director

Signed by "Keith Attoe"
Director

Migao Corporation

Interim Condensed Consolidated Statements of Operations and Comprehensive Income

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

(Unaudited)

	For the three months ended		For the six months ended	
	Sept. 30, 2011	Sept. 30, 2010 (Note 17)	Sept. 30, 2011	Sept. 30, 2010 (Note 17)
Revenues	\$ 66,028	\$ 68,455	\$ 166,549	\$ 134,711
Cost of goods sold (note 5, 8 and 9)	51,905	52,169	135,264	100,926
Gross profit	14,123	16,286	31,285	33,785
General and administrative (notes 8 and 9)	4,076	2,744	8,065	5,967
Selling	1,676	2,065	4,206	4,431
Pre-operating costs	330	364	568	610
Other income	(305)	(59)	(418)	(288)
	5,777	5,114	12,421	10,720
Operating Profit	8,346	11,172	18,864	23,065
Finance costs	850	648	1,587	1,396
Foreign exchange (gain) loss	(195)	95	(212)	41
Profit before income taxes	7,691	10,429	17,489	21,628
Provision for income taxes	1,735	2,276	3,766	4,699
Profit for the period	5,956	8,153	13,723	16,929
Other comprehensive income				
Exchange difference on translation of foreign operations	29,642	(4,142)	31,079	9,718
Total comprehensive income	\$ 35,598	\$ 4,011	\$ 44,802	\$ 26,647

Income per share:

Basic	\$ 0.11	\$ 0.16	\$ 0.26	\$ 0.32
Diluted	\$ 0.11	\$ 0.16	\$ 0.26	\$ 0.32

Weighted average number of common shares outstanding:

Basic	52,704,426	52,171,422	52,783,693	52,156,125
Diluted	52,704,426	52,569,835	52,783,693	52,564,559

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	\$ 155,417	\$ (1,822)	\$ 5,721	\$ 144,120	\$ 303,436
Profit for the period	-	-	-	13,723	13,723
Share-based payments	-	-	387	-	387
Exchange differences on translation of foreign operations	-	31,079	-	-	31,079
Share buy back	(1,256)	-	-	-	(1,256)
Balance, September 30, 2011	\$ 154,161	\$ 29,257	\$ 6,108	\$ 157,843	\$ 347,369
Balance, April 1, 2010	\$ 152,230	\$ -	\$ 5,702	\$ 110,168	\$ 268,100
Profit for the period	-	-	-	16,929	16,929
Share-based payments	-	-	559	-	559
Exercise of stock options	340	-	(112)	-	228
Exchange differences on translation of foreign operations	-	9,718	-	-	9,718
Balance, September 30, 2010	\$ 152,570	\$ 9,718	\$ 6,149	\$ 127,097	\$295,534
<i>(note 17)</i>					

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

Migao Corporation

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2011	Sept. 30, 2010 (Note 17)	Sept. 30, 2011	Sept. 30, 2010 (Note 17)
Cash flows from operating activities				
Profit for the period	\$ 5,956	\$ 8,153	\$ 13,723	\$ 16,929
Items not affecting cash:				
Depreciation and amortization	1,775	1,371	3,395	2,700
Share-based payments	205	261	387	559
Deferred taxes	258	386	158	343
Amortization of transaction costs	-	52	5	126
Changes in non-cash working capital items:				
Restricted cash	9,241	(2,296)	(330)	790
Trade and other receivables	(11,421)	(7,573)	(40,079)	(3,421)
Prepayments, deposits, and other assets	(669)	514	(2,889)	549
Inventory	(11,713)	(15,759)	10,170	(3,550)
Due to joint venture partner	(1,251)	-	(1,251)	1,270
Accounts payable and accrued liabilities	(2,980)	2,483	4,787	5,880
Notes payable	(2,679)	4,180	1,954	1,099
Customer deposits	2,492	1,620	381	595
Income taxes payable	(462)	(352)	(1,732)	(88)
Income taxes receivable	149	137	(599)	(232)
Due from joint venture partner	1,400	-	1,554	-
	(9,699)	(6,823)	(10,366)	23,549
Cash flows from investing activities				
Purchase of plant and equipment	(14,517)	(3,691)	(20,745)	(6,192)
Refunds on land use rights	45	-	65	-
Payments for land use rights	-	-	(1,922)	-
Investment in affiliate	(1,337)	-	(1,337)	-
Value-added tax refunds on plant and equipment	685	-	685	-
	(15,124)	(3,691)	(23,254)	(6,192)

Migao Corporation

Interim Consolidated Statements of Cash Flows - continued

(in thousands of Canadian dollars)

(Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2011	Sept. 30, 2010 (Note 17)	Sept. 30, 2011	Sept. 30, 2010 (Note 17)
Cash flows from financing activities				
Proceeds from bank loans	27,198	20,474	46,671	36,795
Repayment of bank loans	(19,390)	(17,349)	(35,025)	(29,395)
Proceeds from exercise of stock options	-	228	-	228
Payment on share buyback	(589)	-	(1,256)	-
Advances from related party	1,281	-	1,281	-
	8,500	3,353	11,671	7,628
Effect of foreign exchange rate changes on cash and cash equivalents	741	(1,211)	846	2,595
Decrease in cash and cash equivalents	(15,582)	(8,372)	(21,103)	27,580
Cash and cash equivalents, beginning of period	20,486	96,173	26,007	60,221
Cash and cash equivalents, end of period	\$ 4,904	\$ 87,801	\$ 4,904	\$ 87,801

Cash and cash equivalents consist of:

	September 30, 2011	September 30, 2010
Cash on hand	\$ 4,397	\$ 21,286
Term deposit	43	40
Bank notes	464	66,475
	\$ 4,904	\$ 87,801

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Interest paid	\$ 918	\$ 541	\$ 1,737	\$ 1,209
Tax paid	\$ 1,337	\$ 2,099	\$ 5,363	\$ 4,418
Tax refunded	\$ 233	\$ -	\$ 233	\$ -
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 six months ended September 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 and Sichuan Migao jointly hold 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 same accounting policies and methods of computation were followed in the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the unaudited condensed interim consolidated financial statements for the three months ended June 30, 2011. Additional significant accounting policies relevant to these financial statements have been described below.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Statement of compliance - continued

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.

The unaudited condensed interim consolidated financial statements for the three months ended June 30, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended March 31, 2011 prepared in accordance with previous Canadian GAAP. Accordingly, these unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2011 should be read in conjunction with the annual consolidated financial statements for the year ended March 31, 2011 prepared in accordance with previous Canadian GAAP, as well as the unaudited condensed interim consolidated financial statements for the three months ended June 30, 2011.

As IFRS and previous Canadian GAAP differ in some areas, management has amended certain accounting, measurement, and consolidation methods previously applied in the Canadian GAAP financial statements in order to comply with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial results and cash flows of the Company is provided in Note 17. This note includes reconciliations of equity and total comprehensive net income for the comparative periods under previous Canadian GAAP to those reported under IFRS.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 14, 2011.

Investments in affiliate

Investments over which the Company exercises significant influence, and which are neither subsidiaries nor interests in joint ventures, are affiliates. Investments in affiliates are accounted for using the equity method.

The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company's proportionate share of the profit or loss and any other changes in the affiliates' net assets such as dividends.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

2. Significant Accounting Policies - continued

Statement of compliance - continued

Investments in affiliates - continued

The Company's proportionate share of the affiliate's profit or loss is based on its most recent financial statements. Where there are differences in the affiliate's reporting period, financial statements are aligned to the Company's reporting date or adjustments are made to reflect any material transactions or events that occur between the different dates. Adjustments are also made to align any inconsistencies between the Company's accounting policies and the affiliate's policies before applying the equity method, and to account for depreciable assets based on their fair values at the acquisition date and for any impairment losses recognized by the affiliate.

If the Company's share of the affiliate's losses equals or exceeds the investment in the affiliate, recognition of further losses is discontinued. After the Company's interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the affiliate. If the affiliate subsequently reports profits, the Company resumes recognizing its share of those profits only after the share of the profits equals the share of losses not recognized.

At the end of each reporting period, the Company assesses its investments in affiliates for indicators of impairment.

As of September 30, 2011, the Company has invested \$1,424 or RMB 8.8 million (March 31, 2011 - \$Nil) into Sichuan Ruigao Logistics Co. Ltd., representing a 25% interest in this company. The Company uses the equity method to account for the investment. During the quarter ended September 30, 2011, the Company did not recognize any income or loss relating to this investment as very little activity occurred during the quarter.

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Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 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

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.

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

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Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 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

IAS 12, *Income Tax, Amendment regarding Deferred Tax: Recovery of Underlying Asset (IAS 12)*, was amended by the IASB in December 2010. The amendment requires an entity to recognize a deferred tax asset or liability depending on the expected manner of recovery or settlement of the asset or liability and for which the tax base is not immediately apparent. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. 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 September 30, 2011 and March 31, 2011, the Company had restricted cash pledged for the following credit facilities:

	September 30, 2011	March 31, 2011
Notes payable deposits	\$ 10,703	\$ 9,201

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 \$13,112 as of September 30, 2011 (March 31, 2011 - \$9,944). The restrictions on the deposited cash will be released between October 2011 and March 2012, when the notes payable are redeemed.

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Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

4. Prepayments, Deposits and Other Assets

	September 30, 2011	March 31, 2011
Current:		
Prepayments for inventory	\$ 52,333	\$ 50,145
Receivables from Potash Export Corporation (“PEC”)	71,503	-
Prepayments for transportation services	125	121
Deposits for the supply of utilities	805	737
Deposits on obtaining sales contracts	1,642	1,917
VAT receivables	3,845	1,931
Government subsidy	228	570
Vendor refund	-	1,907
Advances made to PRC government	2,147	-
Other receivables and deposits	1,042	429
Prepayments, deposits and other assets – current	\$ 133,670	\$ 57,757
Long-Term:		
Prepayments for inventory	\$ -	\$ 94,947
Prepayments for construction costs	6,576	392
Prepayments for machinery	765	807
Prepayments for land use right	43	109
Prepayments, deposits and other assets – long-term	\$ 7,384	\$ 96,255

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 was required to make advance payments that are prepayments in nature. As of March 31, 2011, prepayments of \$94,947 (equivalent to US\$100.0 million) had 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 September 30, 2011, the approximate market value of the pledged shares based on the September 30, 2011 closing price of \$2.98 is \$52,885.

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Notes to Interim Condensed Consolidated Financial Statements

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

(Unaudited)

4. Prepayments, Deposits and Other Assets - continued

During the quarter ended September 30, 2011, 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 30, 2011, PEC has refunded \$32,586 (approximately US\$31 million) of the prepayments to the Company. In addition, subsequent to September 30, 2011 and as of November 14, 2011, PEC has refunded another \$35,658 (approximately US\$34 million) to the Company. PEC has committed to refund 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 September 30, 2011 (see note 18).

5. Inventory

	September 30, 2011	March 31, 2011
Raw materials	\$ 50,407	\$ 14,248
Finished goods	12,584	5,867
Packing and other materials	634	476
Goods in transit	23,579	35,907
Work in progress	122	102
	\$ 87,326	\$ 56,600

During the three and six months ended September 30, 2011, the Company recorded no inventory write-downs and made no reversals of previous inventory write-downs (three and six months ended September 30, 2010 - \$Nil). Inventory included in cost of goods sold for the three and six months ended September 30, 2011 was \$51,905 and \$135,264 (September 30, 2010 - \$52,169 and \$100,926), respectively.

6. Related Party Balances and Transactions

The Company had the following related party balances:

	September 30, 2011	March 31, 2011
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	\$ 817	\$ -

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Notes to Interim Condensed Consolidated Financial Statements

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

(Unaudited)

6. Related Party Balances and Transactions - continued

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 these unaudited interim condensed consolidated financial statements. In addition, LYEDC has provided corporate guarantees on \$4,884 (March 31, 2011 - \$4,456) of the Company's short-term bank loans outstanding as of September 30, 2011 (note 10). Lastly, as of September 30, 2011, the Company has an advance from LYEDC of \$817 (March 31, 2011 - \$Nil). The advance is non interest bearing and due on demand.

LYEDC is controlled by an officer and director of Migao.

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 and six months ended September 30, 2011, the Company sold ammonium nitrate to SQM JV of \$Nil and \$858 (September 30, 2010 - \$Nil and \$Nil), respectively. In addition, the Company received ammonium nitrate from SQM JV of \$1,705 and \$3,404 (September 30, 2010 - \$Nil and \$Nil), respectively. All transactions were recorded at carrying value.

As at September 30, 2011, SQM JV owes the Company \$472 (March 31, 2011 - \$3,460) for ammonium nitrate cost, natural gas and salaries expenses the Company paid on its behalf.

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

	September 30, 2011	March 31, 2011
Cash and cash equivalents	\$ 816	\$ 172
Other non-cash current assets	8,468	3,161
Proportionate share of current assets	9,284	3,333
Plant and equipment	4,629	4,336
Construction in progress	-	-
Land use rights	1,218	1,090
Proportionate share of long-term assets	5,847	5,426
Proportionate share of total assets	\$ 15,131	\$ 8,759

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

7. Joint Venture - continued

	September 30, 2011	March 31, 2011
Accounts payable and accrued liabilities	\$ 1,524	\$ 656
Notes payable	208	33
Customer deposits	3,012	269
Due to Sichuan Migao	236	1,730
Proportionate share of current liabilities	\$ 4,980	\$ 2,688
Proportionate share of net assets of joint ventures	\$ 10,151	\$ 6,071

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>Sept. 30, 2011</u>	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2011</u>	<u>Sept. 30, 2010</u>
Total revenue	\$ 1,608	\$ -	\$ 4,130	\$ -
Total cost of goods sold	\$ 1,446	\$ -	\$ 3,697	\$ -
Total expenses	\$ 154	\$ 41	\$ 364	\$ 91
Proportionate share of net Income (loss) for the period	\$ 18	\$ (41)	\$ 84	\$ (91)

The Company's 50% share of the joint venture's commitments relating to capital expenditure and purchases of raw materials as at September 30, 2011 totaled approximately \$34 and \$201 (March 31, 2011 - \$17 and \$508), respectively.

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Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

8. Plant and Equipment

Movements in the carrying value of plant and equipment were as follows:

	Building and improvements	Machinery and equipment	Vehicles	Office equipment	Construction 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	1,396	1,862	293	78	18,557	22,186
Transfer from CIP	5,985	2,192	-	-	(8,177)	-
Disposals	-	-	-	-	-	-
Value-added tax refunds	-	(685)	-	-	-	(685)
Effect of foreign currency exchange differences	4,629	3,865	206	79	1,196	9,975
Balance at September 30, 2011	\$ 53,274	\$ 45,012	\$ 2,377	\$ 943	\$ 17,309	\$ 118,915

Migao Corporation

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(Unaudited)

8. Plant and Equipment - continued

	Building and improvements	Machinery and equipment	Vehicles	Office equipment	Construction 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	1,081	1,905	146	45	-	3,177
Effect of foreign currency exchange differences	520	1,041	107	45	-	1,713
Balance at September 30, 2011	\$ 6,459	\$ 12,989	\$ 1,244	\$ 523	\$ -	\$ 21,215
Net book amount						
At March 31, 2011	\$ 36,406	\$ 27,735	\$ 887	\$ 353	\$ 5,733	\$ 71,114
At September 30, 2011	\$ 46,815	\$ 32,023	\$ 1,133	\$ 420	\$ 17,309	\$ 97,700

Depreciation expense for the three and six months ended September 30, 2011 was \$1,660 and \$3,177 (September 30, 2010 - \$1,270 and \$2,501), respectively, and is included in cost of goods sold and general and administrative expense.

During the three and six months ended September 30, 2011, amounts incurred on the Company's construction projects include \$67 and \$87 of capitalized borrowing costs (September 30, 2010 - \$6 and \$8), respectively, including both the cost of project-specific borrowings and an allocation of the cost of general borrowings, calculated using a capitalization rate of between 6.25% to 7.87%.

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9. Land Use Rights

Movements in the carrying value of land use rights were as follows:

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		2,180
Balance at September 30, 2011	\$	24,870

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		218
Effect of foreign currency exchange differences		134
Balance at September 30, 2011	\$	1,981

Net book amount

At March 31, 2011	\$	19,139
At September 30, 2011	\$	22,889

As of September 30, 2011, the Company had fifteen (March 31, 2011 – 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 and six months ended September 30, 2011 was \$115 and \$218 (September 30, 2010 - \$101 and \$199), respectively, and is included in cost of goods sold and general and administrative expense.

Migao Corporation

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(Unaudited)

9. Land Use Rights - continued

As of September 30, 2011, the Company had not obtained the land use right certificates for five (March 31, 2011 – three) of the land leases and approximately \$598 (March 31, 2011 – \$545) 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 September 30, 2011, the Company has short-term bank loans outstanding totaling \$63,584 (March 31, 2011 - \$46,578) for working capital purposes.

	September 30, 2011	March 31, 2011
Bank loan due on July 28, 2012, bearing interest at 105% of Prime rate in China (“PC”), being 6.89% at quarter end and secured by certain buildings and one land use right of Sichuan Migao (1)	\$ 1,140	\$ -
Bank loan due on March 28, 2012, bearing interest at 90% of PC, being 5.90% at quarter end and secured by a corporate guarantee from Sichuan Migao (1)	1,302	1,188
Bank loan due on August 2, 2012, bearing interest at 110% of PC, being 7.22% at quarter end and secured by a corporate guarantee from Guangdong Migao (1)	1,628	-
Bank loan due on July 6, 2011, bearing fixed interest of 4.78% and secured by a corporate guarantee from Guangdong Migao (1)	-	1,782
Bank loan due on July 12, 2012, bearing interest at 105% of PC, being 6.89% at quarter end and secured by one land use right of Sichuan Migao (1)	1,790	-
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	-	2,228

Migao Corporation

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10. Loans – continued

	September 30, 2011	March 31, 2011
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 a personal guarantee from the CEO of the Company	-	2,228
Bank loan due on July 14, 2011, bearing fixed interest of 4.78% and secured by a corporate guarantee from Guangdong Migao (1)	-	2,673
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 (1)	-	2,673
Bank loan due on January 13, 2012, bearing interest at PC, being 5.81% at quarter end and secured by certain buildings, one land use right of Sichuan Migao and a corporate guarantee from Guangdong Migao (1)	3,256	2,970
Bank loan due on August 2, 2012, bearing interest at 95% of PC, being 6.23% at quarter end and secured by corporate guarantees from Sichuan Migao (1) (4)	3,256	-
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 (1)	-	2,970
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 (1)	-	3,415
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)	3,675	-
Bank loan due on November 16, 2011, bearing fixed interest of 6.00% at quarter end and secured by corporate guarantees from Sichuan Migao(1)	3,777	-
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 (1)	-	3,846
Bank loan due on July 18, 2012, bearing interest at 130% of PC, being 8.53% at quarter end and secured by corporate guarantees from Sichuan Migao and LYEDC, and a personal guarantee from the CEO of the Company	4,884	-

Migao Corporation

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(Unaudited)

10. Loans – continued

	September 30, 2011	March 31, 2011
Bank loan due on July 7, 2012, bearing interest at 105% of PC, being 6.89% at quarter end and secured by certain buildings, one land use right of Sichuan Migao and a corporate guarantee from Guangdong Migao (1)	4,884	-
Bank loan due on April 2, 2011, bearing fixed interest of 5.31% and secured by a corporate guarantee from Sichuan Migao (1)	-	5,940
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 (1)	6,512	-
Bank loan due on April 22, 2011, bearing fixed interest of 5.31% and secured by a corporate guarantee from Sichuan Migao (1) (2)	-	6,683
Bank loan due on April 28, 2012, bearing fixed interest of 7.57% and secured by a corporate guarantee from Sichuan Migao (1) (2)	7,326	-
Bank loan due on February 29, 2012, bearing fixed interest of 6.06% at quarter end and secured by certain buildings, one land use right of Sichuan Migao and a corporate guarantee from Guangdong Migao (1)	7,652	6,979
Bank loan due on July 22, 2012, bearing interest at 120% of PC, being 7.87% at quarter end and secured by one land use right of Changchun Migao and a corporate guarantee from Guangdong Migao	11,396	-
Borrowings from Hong Kong Euro Asia for working capital purpose, due on demand and bearing no interest	1,522	1,424
Transaction costs (3)	(416)	(421)
	\$ 63,584	\$ 46,578

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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(Unaudited)

10. Loans – continued

- (1) As of September 30, 2011, the Company had a \$121,643 or RMB 747.2 million (March 31, 2011 - \$85,861 or RMB 578.2 million) line of credit arrangement in place, of which \$46,199 or RMB 283.8million (March 31, 2011 - \$41, 120 or RMB 276.9 million) has been withdrawn.
- (2) 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 was required to pay a fee equal to 1.5% of the gross proceeds raised. Total lines of credit of \$47,118 (RMB 317.3 million) relating to the bank debt financing were approved and the total transaction costs incurred were \$729. As of September 30, 2011, the total lines of credit outstanding relating to the bank debt financing were \$7,326 (RMB 45.0 million) (March 31, 2011 - \$6,683 or RMB 45.0 million). As at September 30, 2011, the Company has recorded \$416 (March 31, 2011 - \$421) as unamortized transaction costs. Total amortization of the transaction costs for the three and six months ended September 30, 2011 was \$Nil and \$5 (September 30, 2010 - \$52 and \$126), respectively.
- (3) 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 commences when the loans are withdrawn.
- (4) Guangdong Migao has to comply with certain bank covenants in relation to the loan. As of September 30, 2011, Guangdong Migao has met all relevant covenant requirements.

Total loan interest expense during the three and six months ended September 30, 2011 was \$918 and \$1, 737 (RMB 6.0 million and RMB 11.5 million) (September 30, 2010 - \$541 or RMB 3.5 million and \$1,209 and RMB 7.9 million), respectively. Total interest subsidy granted by the government during the three and six months ended September 30, 2011 was \$Nil (September 30, 2010 - \$Nil and \$98), respectively.

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 \$12,810 (RMB 78.7 million) as of September 30, 2011 (March 31, 2011 - \$2,120 or RMB 14.3 million).

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(Unaudited)

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)	(346,000)		(1,256)
Balance – September 30, 2011	52,544,661	\$	154,161

(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 346,000 common shares have been purchased for cancellation for a total of \$1,256 as at September 30, 2011.

(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.

Migao Corporation

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11. Share Capital - continued

(c) Stock options - continued

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	945,000	\$ 8.24
Granted during the period	1,980,000	3.75
Outstanding - September 30, 2011	2,925,000	\$ 5.20

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

<u>As of September 30, 2011</u>				
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
\$7.69	60,000	0.75	60,000	\$7.69
\$8.46	30,000	0.75	30,000	\$8.46
\$9.93	40,000	1.25	40,000	\$9.93
\$9.48	475,000	1.67	475,000	\$9.48
\$6.40	165,000	7.50	110,000	\$6.40
\$6.38	175,000	8.67	58,333	\$6.38
\$3.75	500,000	9.95	Nil	N/A
\$3.75	1,480,000	4.95	Nil	N/A
\$5.20	2,925,000	5.46	773,333	\$8.65

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11. Share Capital - continued

(c) Stock options - continued

During the period ended September 30, 2011, 1,480,000 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 \$3.75 per common share. These options have vesting periods of up to three years and an exercise period of up to five years. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be \$1.94 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 1.15%; expected volatility 75%; and expected life of 5 years. Stock-based compensation expense on these options for the three and six months ended September 30, 2011 was \$91 (September 30, 2010 - \$Nil).

During the period ended September 30, 2011, 500,000 options were issued to one employee and one director of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$3.75 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 \$2.53 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 1.15%; expected volatility 75%; and expected life of 5 years. Stock-based compensation expense on these options for the three and six months ended September 30, 2011 was \$40 (September 30, 2010 - \$Nil).

For the three and six months ended September 30, 2011, total stock-based compensation expense on the remaining options granted in prior periods was \$74 and \$256 (September 30, 2010 - \$261 and \$559).

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 Company's assets and operations located outside the PRC are not material.

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(Unaudited)

13. Commitments

	September 30, 2011	March 31, 2011
Purchase commitments for raw materials (including but not limited to prepayment on raw materials in note 4) and supplies for the next twelve months	\$ 50,691	\$ 60,096
Commitments on capital expenditure	4,175	8,098
Commitment to contribute cash representing the remaining contribution under the joint venture agreement in return for interest in SQM JV	-	4,373

The following represents the approximate lease obligation to be met during the 12-month periods ended after September 30, 2011.

2012	\$ 105
2013	105
2014	105
Total	\$ 315

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 cancellation. 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.

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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 renminbi ("RMB"). Head office expenditures are generally denominated in Canadian dollars ("C\$"). Therefore, the Company's primary currencies include RMB and C\$. The Consolidated Statements of Operations and Comprehensive Income of the Company's Chinese subsidiaries 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 profit for the Company's international operations. Similarly, the Company's revenues, operating expenses and profit 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 September 30, 2011, through its wholly-owned subsidiaries, the Company had the following which were denominated in RMB:

	September 30, 2011	March 31, 2011
Cash and cash equivalents	\$ 4,801	\$ 24,292
Restricted cash	10,703	9,201
Trade receivables	94,308	46,340
Other receivables	76,360	1,427
Accounts payable and accrued liabilities	23,881	9,659
Notes payable	13,112	9,944
Bank loans	62,479	41,729

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 September 30, 2011 between C\$ and the RMB on the financial instruments would have had an \$8,670 (September 30, 2010 - \$6,286) effect on the unaudited interim condensed consolidated statement of comprehensive income in C\$.

Migao Corporation

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(Unaudited)

15. Financial Instruments and Risk Management - continued

Market Risk - continued

Foreign currency risk - continued

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

	September 30, 2011	March 31, 2011
Bank loans	\$ -	\$ 3,846

Gains and losses arising upon translation of this loan into RMB are recognized in income within the PRC subsidiary and then translated to C\$ through the foreign currency translation reserve. A 10% change in the exchange rate as at September 30, 2011 between the C\$ and the HK\$ on the financial instrument would have a \$Nil effect on the unaudited interim condensed consolidated statement of operations in C\$ (September 30, 2010 - \$398).

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

	September 30, 2011	March 31, 2011
Cash and cash equivalents	\$ 1	\$ 139
Loans	1,519	1,421

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 September 30, 2011 between the C\$ and the US\$ on the financial instruments would have had a \$152 effect on the interim condensed consolidated statement of operations in C\$ (September 30, 2010 - \$198).

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

	September 30, 2011	March 31, 2011
Cash and cash equivalents	\$ 48	\$ 50
Accounts payable and accrued liabilities	89	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 September 30, 2011 between the C\$ and the S\$ on the financial instruments would have had a \$4 effect on the interim condensed consolidated statement of operations in C\$ (September 30, 2010 - \$10).

Migao Corporation

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15. Financial Instruments and Risk Management - continued

Market Risk – continued

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 receivables 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 September 30, 2011 and March 31, 2011, 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:

September 30, 2011

Current	90 – 180 days	Past Due		Carrying value
		180 – 365 days	365 days +	
\$48,287	\$41,153	\$4,742	\$130	\$94,312

March 31, 2011

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

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.

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15. Financial Instruments and Risk Management - continued

Credit Risk - continued

The Company reviews trade receivables 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 receivables represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts and as a result, no allowance has been recorded. As well, deposits by certain customers are often made which also helps to mitigate the risk if any.

Liquidity Risk

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

At September 30, 2011, the Company's cash and cash equivalents balance was \$4,904 (March 31, 2011 - \$26,007) and its working capital balance was \$217,936 (March 31, 2011 - \$116,734). As at September 30, 2011, loans in the amount of \$63,584 (March 31, 2011 - \$46,578) 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.

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.

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17. Transition to International Financial Reporting Standards

The accounting policies set out in Note 2 have been applied in preparing the unaudited interim condensed consolidated financial statements for the three and six months ended September 30, 2011 and the comparative information presented in these financial statements.

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.

In preparing the financial statements for the six months ended September 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.

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(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of equity at September 30, 2010:

		Canadian GAAP	Effect of transition to IFRS	IFRS
	Note	September 30, 2010		
Assets				
Current assets				
Cash and cash equivalents		\$87,801	\$ -	\$87,801
Restricted cash		13,440	-	13,440
Trade receivables		41,253	-	41,253
Prepayments, deposits and other assets		68,059	-	68,059
Inventory		90,714	-	90,714
Due from related party		29	-	29
Income taxes receivable		239	-	239
Deferred tax assets	17 (b)	1,349	(1,349)	-
		302,884	(1,349)	301,535
Prepayments, deposits and other assets		1,894	-	1,894
Plant and equipment	17 (c)(d)(e)	57,825	4,824	62,658
Construction in progress	17 (c)	5,331	(5,331)	-
Land use rights		19,888	(357)	19,531
Deferred tax assets	17 (b)(f)	825	1,518	2,343
Total assets		\$388,647	\$ (695)	\$387,951
Liabilities and Shareholders' Equity				
Current liabilities				
Loans		\$50,002	\$ -	\$50,002
Accounts payable and accrued liabilities		16,185	-	16,185
Notes payables		15,326	-	15,326
Customer deposits		7,995	-	7,995
Income taxes payable		1,711	-	1,711
Deferred tax liabilities	17 (b)	1,011	(1,011)	-
		92,230	(1,011)	91,219
Deferred tax liabilities	17 (b)(f)	187	1,011	1,198
		92,417	-	92,417
Shareholders' Equity				
Share capital		152,570	-	152,570
Contributed surplus		6,149	-	6,149
Retained earnings		133,999	(6,902)	127,097
Foreign currency translation reserve	17 (a)	3,512	6,206	9,718
Total equity		296,230	(694)	295,534
Total liabilities and equity		\$388,647	\$ (694)	\$387,951

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of comprehensive income for the three months ended September 30, 2010 and for the six months ended September 30, 2010:

	<i>Note</i>	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
		Three months ended September 30, 2010			Six months ended September 30, 2010		
Revenues		\$68,455	\$ -	\$68,455	\$134,711	\$ -	\$134,711
Cost of goods sold		52,169	-	52,169	100,926	-	100,926
Gross profit		16,286	-	16,286	33,785	-	33,785
Operating expenses							
Selling		2,065	-	2,065	4,431	-	4,431
General and administrative	17(c)(d)	2,290	454	2,744	5,026	941	5,967
Stock-based compensation	17(c)	261	(261)	-	559	(559)	-
Pre-operating costs		364	-	364	610	-	610
Finance costs	17(e)	654	(6)	648	1,404	(8)	1,396
Foreign exchange gain		95	-	95	41	-	41
Other income		(59)	-	(59)	(288)	-	(288)
		5,670	187	5,857	11,783	374	12,157
Profit before income taxes		10,616	(187)	10,429	22,002	(374)	21,628
Provision for income taxes	17(f)	(2,318)	42	(2,276)	(4,783)	84	(4,699)
Profit for the period		8,298	(145)	8,153	17,219	(290)	16,929
Other comprehensive income:							
Exchange difference on translation of foreign operations		(4,142)	-	(4,142)	9,718	-	9,718
Total other comprehensive income		(4,142)	-	(4,142)	9,718	-	9,718
Total comprehensive income for the period		\$ 4,156	\$ (145)	\$ 4,011	\$ 26,937	\$ (290)	\$ 26,647
Earnings per share:							
Basic (C\$)		\$0.16		\$0.16	\$0.33		\$0.32
Diluted (C\$)		\$0.16		\$0.16	\$0.33		\$0.32

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(Unaudited)

17. Transition to International Financial Reporting Standards - continued

Reconciliation of the statement of cash flows:

The transition from Canadian GAAP to IFRS had no significant impact on the unaudited interim condensed consolidation 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 any 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 \$1,349 and the deferred tax liabilities of \$1,011 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 \$193 and \$382 has been recognized for the three and six month periods ended September 30, 2010, 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 \$6 and \$8 of borrowing costs were capitalized in plant and equipment for the three and six month periods ended September 30, 2010, respectively.

Migao Corporation

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended September 30, 2011 and 2010

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

(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

During the current period, 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 30, 2011, PEC has refunded approximately US\$31 million of the prepayments to the Company. In addition, subsequent to September 30, 2011 and as of November 14, 2011, PEC has refunded another approximately US\$34 million to the Company and will be refunding the remaining US\$35 million by December 31, 2011 (see note 4).