Migao Corporation

Interim Condensed Consolidated Financial Statements

For the three months ended June 30, 2013
(Expressed in Canadian dollars)
(Unaudited)

Migao Corporation

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(Unaudited)

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Condensed Consolidated Statement of Financial Position

(in thousands of Canadian dollars)
(Unaudited)

	June 30, 2013	March 31, 2013 (restated)
Assets		
Current assets		
Cash and cash equivalents	$ **17,232**	$ 10,192
Restricted cash (note 3)	**84,310**	66,848
Trade receivables	**116,847**	187,534
Prepayments, deposits and other assets (note 4)	**113,809**	83,605
Inventory (note 5)	**86,235**	62,942
Income taxes receivable	**340**	253
	418,773	411,374
Non-current assets		
Prepayments, deposits and other assets (note 4)	**5,009**	1,951
Plant and equipment	**94,449**	89,741
Land use rights	**23,021**	21,769
Deferred tax assets	**4,386**	5,874
Investment in a joint venture	**14,899**	10,777
Investment in an associate	**1,403**	1,318
	$ **561,940**	$ 542,804
Liabilities		
Current liabilities		
Loans (note 7)	$ **25,486**	$ 44,930
Accounts payable and accrued liabilities	**16,626**	17,778
Notes payable (note 3)	**163,241**	132,395
Customer deposits	**10,432**	12,648
Income taxes payable	**137**	128
Due to a joint venture (note 6)	**8,252**	3,638
Due to a related party (note 6)	**10,360**	16,820
	234,534	228,337
Non-current liabilities		
Loans (note 7)	**4,368**	4,103
Deferred tax liabilities	**356**	1,923
	239,258	234,363
Equity		
Share capital (note 8)	**154,025**	154,025
Contributed surplus	**9,493**	9,259
Foreign currency translation reserve	**44,052**	24,917
Retained earnings (note 9)	**115,112**	120,240
	322,682	308,441
	$ **561,940**	$ 542,804

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

Signed by "Guocai Liu"
Director

Signed by "Keith Attoe"
Director

Migao Corporation

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three months ended June 30, 2013 and 2012
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

		June 30, 2013		June 30, 2012 (restated)
Revenues	$	**29,405**	$	32,535
Cost of goods sold		**27,418**		29,714
Gross profit		**1,987**		2,821
General and administrative		**4,672**		4,856
Selling		**1,254**		1,186
Pre-operating costs		**38**		890
Share of profit of a joint venture		**(50)**		(342)
Other income		**(448)**		(900)
		5,466		5,690
Operating Loss		**(3,479)**		(2,869)
Finance costs		**1,459**		1,140
Foreign exchange loss		**5**		-
Loss before income taxes		**(4,943)**		(4,009)
Provision for (recovery of) income taxes		**185**		(90)
Loss for the period		**(5,128)**		(3,919)
Other comprehensive income that may be subsequently reclassified to profit or loss				
Exchange difference on translation of foreign operations		**19,290**		3,910
Total comprehensive income (loss)	$	**14,162**	$	(9)
Loss per share:				
Basic	$	**(0.10)**	$	(0.07)
Diluted	$	**(0.10)**	$	(0.07)
Number of common shares outstanding:				
Basic		**52,496,160**		52,496,160
Diluted		**52,496,160**		52,496,160

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

Migao Corporation

Condensed Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)
(Unaudited)

	Share capital	Foreign currency translation reserve	Contributed Surplus	Retained earnings	Total equity
Balance, April 1, 2013	**$154,025**	**$ 24,917**	**$ 9,259**	**$ 120,240**	**$ 308,441**
Loss for the period	-	-	-	(5,128)	(5,128)
Other comprehensive income for the period					
Exchange difference on translation of foreign operations	-	19,290	-	-	19,290
Total comprehensive income (loss) for the period	-	19,290	-	(5,128)	14,162
Recognition of equity-settled share-based payments	-	-	234	-	234
Balance, June 30, 2013	**$ 154,025**	**$ 44,052**	**$ 9,493**	**$ 115,112**	**$ 322,682**

	Share capital	Foreign currency translation reserve	Contributed surplus	Retained earnings	Total equity
Balance, April 1, 2012	**$ 154,025**	**$ 20,216**	**$ 7,517**	**$ 160,658**	**$ 342,416**
Loss for the period	-	-	-	(3,919)	(3,919)
Other comprehensive income for the period					
Exchange difference on translation of foreign operations	-	3,910	-	-	3,910
Total comprehensive income (loss) for the period	-	3,910	-	(3,919)	(9)
Recognition of equity-settled share-based payments	-	-	676	-	676
Balance, June 30, 2012	**$ 154,025**	**$ 24,126**	**$ 8,193**	**$ 156,739**	**$ 343,083**

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

Migao Corporation

Condensed Consolidated Statement of Cash Flows
For the three months ended June 30, 2013 and 2012
(in thousands of Canadian dollars)
(Unaudited)

	June 30, 2013	June 30, 2012 (restated)
Cash flows from operating activities		
Loss for the period	**$ (5,128)**	$ (3,919)
Items not affecting cash:		
Depreciation and amortization	**2,024**	2,229
Share-based payments	**234**	676
Deferred taxes	**(79)**	(151)
Share of profit of a joint venture	**(50)**	(342)
Changes in non-cash working capital items:		
Restricted cash	**(12,751)**	(17,135)
Trade receivables	**80,301**	39,611
Prepayments, deposits, and other assets	**(24,075)**	(29,720)
Inventory	**(18,612)**	(13,132)
Income taxes receivable	**(69)**	(1,306)
Due from a joint venture	**-**	5,164
Accounts payable and accrued liabilities	**(1,967)**	(4,234)
Notes payable	**21,624**	33,991
Customer deposits	**(2,942)**	(1,113)
Income taxes payable	**(32)**	(223)
Due to a joint venture	**4,249**	-
Due to a related party	**(7,322)**	-
	35,405	10,396
Cash flows used in investing activities		
Investment in a joint venture	**(4,227)**	-
Purchase of plant and equipment	**(970)**	(2,490)
Payments for deposits of land use rights	**(2,500)**	-
	(7,697)	(2,490)
Cash flows used in financing activities		
Proceeds from bank loans	-	9,892
Repayment of bank loans	**(21,591)**	(22,736)
	(21,591)	(12,844)
Effect of foreign exchange rate changes on cash and cash equivalents	**923**	491
Increase (decrease) in cash and cash equivalents	**7,040**	(4,447)
Cash and cash equivalents, beginning of period	**10,192**	42,805
Cash and cash equivalents, end of period	**$ 17,232**	$ 38,358

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, is a manufacturer of specialty potash-based fertilizers, produced at seven operational facilities in the People's Republic of China ("PRC") (collectively as "the Group").

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. During the three months period ended June 30, 2013, the Group contributed $4,227 into SQM JV as registered capital in accordance with mutual agreement signed between the Group and SQM.

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"). Accordingly they do not include all of the information required for full annual financial statements required by IAS 1 *Presentation of Financial Statements of the International Financial Reporting Standards* ("IFRS") as issued by IASB. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended March 31, 2013, which include information necessary to understand the Company's business and financial statement presentation.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the three months ended June 30, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2013.

In the current interim period, the Group has applied, for the first time, the following new and revised IFRS issued by IASB:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*;
- IFRS 13 *Fair Value Measurement*;
- IAS 19 (as revised in 2011) *Employee Benefits*;
- IAS 27 (as revised in 2011) *Separate Financial Statements*;
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*;
- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to IFRSs *Annual Improvements to IFRSs 2009-2011 Cycle*; and
- IFRIC-Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

2. Significant Accounting Policies - continued

Statement of compliance - continued

Except as disclosed below, the application of the above amendments to IFRS in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to IAS 1 *"Presentation of Items of Other Comprehensive Income"*

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of these standards that is relevant to the Group is set out below.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

2. Significant Accounting Policies - continued

New and revised Standards on consolidation, joint arrangements, associates and disclosures – continued

Impact of the application of IFRS 11 - continued

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of IFRS 11. The directors concluded that the Group's investment in SQM JV, which was classified as a jointly controlled entity under IAS 31 and was accounted for using the proportionate consolidation method, should be classified as a joint venture under IFRS 11 and accounted for using the equity method. The change in accounting of the Group's investment in SQM JV has been applied in accordance with the relevant transitional provisions set out in IFRS 11. The initial investment as at April 1, 2012 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the tables below for details). Also, the directors performed an impairment assessment on the initial investment as at April 1, 2012 and concluded that no impairment loss is required. Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investment in SQM JV.

The impact of changing from proportionate consolidation to the equity method of accounting on the consolidated financial statements is set out below.

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

2. Significant Accounting Policies - continued

Change of accounting policy - continued

Impact on condensed consolidated statement of financial position as at March 31, 2013:

	As Previously Reported	Adjustments due to IFRS 11	As Restated
		March 31, 2013	
Assets			
Current assets			
Cash and cash equivalents	$ 10,460	$ (268)	$ 10,192
Restricted cash	66,903	(55)	66,848
Trade receivables	188,416	(882)	187,534
Prepayments, deposits and other assets	85,232	(1,627)	83,605
Inventory	67,087	(4,145)	62,942
Income taxes receivable	253	-	253
	418,351	(6,977)	411,374
Non-current assets			
Prepayments, deposits and other assets	1,952	(1)	1,951
Plant and equipment	93,905	(4,164)	89,741
Land use rights	22,825	(1,056)	21,769
Deferred tax assets	5,883	(9)	5,874
Investment in a joint venture	-	10,777	10,777
Investment in an associate	1,318	-	1,318
	$ 542,766	$ (1,430)	$ 542,804
Liabilities			
Current liabilities			
Loans	$ 44,930	$ -	$ 44,930
Accounts payable and accrued liabilities	18,175	(397)	17,778
Notes payable	132,442	(47)	132,395
Customer deposits	13,336	(688)	12,648
Income taxes payable	159	(31)	128
Due to a joint venture partner	2,033	(2,033)	-
Due to a joint venture	1,819	1,819	3,638
Due to a related party	16,820	-	16,820
	229,714	(1,377)	228,337
Non-current liabilities			
Loans	4,103	-	4,103
Deferred tax liabilities	1,976	(53)	1,923
	234,325	(1,430)	234,363
Equity			
Share capital	154,025	-	154,025
Contributed surplus	9,259	-	9,259
Foreign currency translation reserve	24,917	-	24,917
Retained earnings	120,240	-	120,240
	308,441	-	308,441
	$ 542,766	$ (1,430)	$ 542,804
Total effects on net assets	$ 372,723	$ -	$ 372,723
Total effects on equity	$ -	$ -	$ -

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

2. Significant Accounting Policies - continued

Change of accounting policy - continued

Impact on condensed consolidated statement of financial position as at April 1, 2012:

	As Previously Reported	Adjustments due to IFRS 11	As Restated
		April 1, 2012	
Assets			
Current assets			
Cash and cash equivalents	$ 42,935	$ (130)	$ 42,805
Restricted cash	25,989	(326)	25,663
Trade receivables	157,661	(4,875)	152,786
Prepayments, deposits and other assets	43,205	(172)	43,033
Inventory	62,926	(3,257)	59,669
Income taxes receivable	1,086	-	1,086
Due from a joint venture	3,313	3,313	6,626
	337,115	(5,447)	331,668
Non-current assets			
Prepayments, deposits and other assets	3,428	-	3,428
Plant and equipment	110,960	(4,380)	106,580
Land use rights	22,128	(1,063)	21,065
Deferred tax assets	4,144	(10)	4,134
Investment in a joint venture	-	10,222	10,222
Investment in an associate	1,388	-	1,388
	$ 479,163	$ (678)	$ 478,485
Liabilities			
Current liabilities			
Loans	$ 66,993	$ -	$ 66,993
Accounts payable and accrued liabilities	15,675	(262)	15,413
Notes payable	42,685	(326)	42,359
Customer deposits	5,114	(79)	5,035
Income taxes payable	348	-	348
Due to a related party	817	-	817
	131,632	(667)	130,965
Non-current liabilities			
Loans	4,560	-	4,560
Deferred tax liabilities	555	(11)	544
	136,747	(678)	136,069
Equity			
Share capital	154,025	-	154,025
Contributed surplus	7,517	-	7,517
Foreign currency translation reserve	20,216	-	20,216
Retained earnings	160,658	-	160,658
	342,416	-	342,416
	$ 479,163	$ (678)	$ 478,485
Total effects on net assets	$ 409,232	$ -	$ 409,232
Total effects on equity	$ -	$ -	$ -

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

2. Significant Accounting Policies - continued

Change of accounting policy - continued

Impact on condensed consolidated statement of profit or loss and other comprehensive income for the three months ended June 30, 2012:

	As Previously Reported	Increase (Decrease)	As Restated
Revenue	$ 36,692	$ (4,157)	$ 32,535
Cost of goods sold	33,504	(3,790)	29,714
Gross profit	3,188	(367)	2,821
General and administrative	4,980	(124)	4,856
Selling	1,357	(171)	1,186
Pre-operating costs	890	-	890
Share of profit of a joint venture	-	342	(342)
Other income	(1,256)	(356)	(900)
	5,971	(281)	5,690
Operating Loss	**(2,783)**	**86**	**(2,869)**
Finance costs	1,140	-	1,140
Loss before income taxes	(3,923)	86	(4,009)
Recovery of income taxes	(4)	86	(90)
Loss for the period	(3,919)	-	(3,919)
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Exchange difference on translation of foreign operations	3,910	-	3,910
Total other comprehensive income	3,910	-	3,910
Total comprehensive loss for the period	$ (9)	$ -	$ (9)
Loss per share:			
Basic	$ (0.07)	$ -	$ (0.07)
Diluted	$ (0.07)	$ -	$ (0.07)

2. Significant Accounting Policies - continued

New and revised Standards on consolidation, joint arrangements, associates and disclosures – continued

Impact of the application of IFRS 12

The application of IFRS 12 will result in more disclosures regarding the investments in joint arrangements and associates for the year ending March 31, 2014.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

As at June 30, 2013, the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair value.

The directors of the Company are of the opinion that the application of IFRS 13 has no material impact on the Group's fair value measurement as set out in these interim condensed consolidated financial statements of the Group but will result in more disclosures in the consolidated financial statements for the year ending March 31, 2014.

These unaudited condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 14, 2013.

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

3. Restricted Cash

As at June 30, 2013 and March 31, 2013, the Group had restricted cash pledged for the following credit facilities:

	June 30, 2013	March 31, 2013 (restated)
Notes payable deposits	**$ 81,318**	$ 63,232
Letter of credit deposits	**2,992**	3,616
Total	**$ 84,310**	$ 66,848

A note payable is a draft issued by a bank for payments to be made in future, which defers the payment until the due date. 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 totalled $163,241 as of June 30, 2013 (March 31, 2013 – $132,395). The Group has pledged assets for certain notes payable to reduce the percentage of restricted cash to notes payable. The carrying value of pledged assets on notes payable is as follows:

	June 30, 2013	March 31, 2013
Land use rights	**$ 4,684**	$ 4,320
Plant and equipment	**3,874**	4,607
	$ 8,558	**$** 8,927

The restrictions on the deposited cash will be released between July 2013 and December 2013, when the notes payable are matured.

Deposits are pledged as security for irrevocable letter of credits obtained to purchase raw materials for a total of $9,972 as of June 30, 2013 (March 31, 2013 - $12,053). The restriction on the deposits will be released upon the expiry of the related letter of credits.

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

4. Prepayments, Deposits and Other Assets

	June 30, 2013	March 31, 2013 (restated)
Current:		
Prepayments for inventory (Note (a))	**$ 106,665**	$ 72,981
Prepayments for transportation services	**160**	162
Deposits for the supply of utilities	**199**	210
Deposits on obtaining sales contracts	**2,407**	2,400
Value added tax receivables	**1,965**	5,064
Other receivables and deposits	**2,413**	2,788
Prepayments, deposits and other assets - current	**$ 113,809**	$ 83,605
Non-current:		
Prepayments for construction costs	**$ 1,800**	$ 1,791
Prepayments for machinery	**662**	160
Prepayments for land use right	**2,547**	-
Prepayments, deposits and other assets – non-current	**$ 5,009**	$ 1,951

Note (a): Included in the prepayments for inventory as at June 30, 2013, approximately $37,764 (March 31, 2013 - $51,834) was prepaid to a company, which is located in the PRC with fertilizer import license issued by the PRC government (the "Agent"), in relation to the purchase of raw materials and finished goods. The shareholding of the Agent was held by Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC"), and two other parties from the date of its establishment in September 2002 until September 2011, when LYEDC transferred its shareholding in the Agent to an individual. Among those two other parties, one was a state owned enterprise with majority shareholding in the Agent. The Chief Executive Officer of the Company who is also a director of the Company was also the General Manager and Chief Executive Officer of LYEDC.

During the three months ended June 30, 2013, the Group made prepayments for inventory to the Agent amounting to $8,699 (June 30, 2012 - $60,163) and received refunds of the prepayments for inventory from the Agent of $1,062 (June 30, 2012 - $2,273). The purchase of raw material from the Agent amounted to $24,066 during the period (June 30, 2012 - $39,907).

Included in the prepayments for inventory as at June 30, 2013, approximately $58,800 (March 31, 2013 - $15,596) was prepaid to another party (the "Party").

During the three months ended June 30, 2013, the Group made prepayments for inventory to the Party amounting to $51,314 (June 30, 2012 - $Nil) and no refunds of the prepayments for inventory has been received (June 30, 2012 - $Nil). The purchase of raw material from the Party amounted to $9,382 during the period (June 30, 2012 - $Nil).

Notes to Condensed Consolidated Financial Statements
For the three months ended June 30, 2013 and 2012
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

5. Inventory

	June 30, 2013	March 31, 2013 (restated)
Raw materials	$ **33,989**	$ 21,488
Finished goods	**43,880**	11,858
Packing and other materials	**828**	938
Goods in transit	**7,538**	28,658
	$ 86,235	**$** 62,942

6. Related Party Balances and Transactions

The Group had the following related party balance:

	June 30, 2013	March 31, 2013
Amount due to:		
SQM JV (Note (a))	$ **8,252**	$ 3,638
SQM Europe N.V. ("SQM Europe") (Note (b))	$ **10,360**	$ 16,820

Note (a): Amount represents natural gas, ammonium nitrate, liquid ammonium nitrate project expenses, logistics expenses, utilities, and salaries expenses of which SQM JV's paid on the Group's behalf.

Note (b): SQM is the Company's joint venture partner, which owns 50% interest in the SQM JV and SQM Europe is a subsidiary of SQM. The amount is interest-free, unsecured and due within 210 days from the date of invoice. The Group did not purchase inventory from SQM Europe for the three months ended June 30, 2013 and 2012.

7. Loans

As at June 30, 2013, the Group has bank and other loans outstanding totalling $29,854 (March 31, 2013 - $49,033) for working capital and capital expenditure purposes.

	June 30, 2013	March 31, 2013
Bank loans	**28,393**	47,572
Other loans	**1,461**	1,461
	$ **29,854**	$ 49,033
Less: Non-current portion	**(4,368)**	(4,103)
Current portion	$ **25,486**	$ 44,930

Notes to Condensed Consolidated Financial Statements
For the three months ended June 30, 2013 and 2012
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

7. Loans - continued

Carrying amount repayable				
Within one year	$	**24,025**	$	43,469
More than one year, but not exceeding two years		**985**		925
More than two year, but not exceeding five years		**3,383**		3,178
Due on demand		**1,461**		1,461
	$	**29,854**	$	49,033
Less: Non-current portion		**(4,368)**		(4,103)
Current portion	$	**25,486**	$	44,930

8. Share Capital

(a) Authorized:

Unlimited common shares without par value.

(b) Issued common shares

	Number of Shares		Issued and fully paid
Balance – April 1, 2012, March 31, 2013 and June 30, 2013	**52,496,160**	**$**	**154,025**

(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 stock options are vested in three years equally and settled in cash on exercise.

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, 2012	2,925,000	$5.20
Expired during the year	(130,000)	8.56
Cancellation during the year	(243,334)	3.79
Outstanding – March 31, 2013	**2,551,666**	**$5.20**
Expired during the period	(475,000)	9.48
Outstanding – June 30, 2013	**2,076,666**	**$4.18**

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

8. Share Capital - continued

(c) Stock options - continued

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

As of June 30, 2013

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
$6.40	165,000	5.82	165,000	$6.40
$6.38	171,666	6.87	171,666	$6.38
$3.75	100,000	8.21	100,000	$3.75
$3.75	1,640,000	3.20	984,000	$3.75
$4.18	**2,076,666**	**3.96**	**1,420,666**	**$4.38**

As of March 31, 2013

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options
$9.48	475,000	0.17	475,000	$9.48
$6.40	165,000	6.07	165,000	$6.40
$6.38	171,666	7.12	171,666	$6.38
$3.75	100,000	8.46	100,000	$3.75
$3.75	1,640,000	3.45	847,708	$3.75
$5.20	**2,551,666**	**4.96**	**1,759,374**	**$5.80**

9. Retained Earnings

As of June 30, 2013, the total paid in capital of the Group’s PRC entities is $114,120 (RMB 666.2 million) (March 31, 2013 - $107,189 or RMB 666.2 million).

Pursuant to People’s Republic of China (“PRC”) regulations, the Company is required to make appropriations to reserve funds, based on after tax net income determined in accordance with PRC generally accepted accounting principles. The reserve funds are established for covering corporate obligations in the event of business liquidation. The reserve funds are presented in the consolidated financial statements as part of retained earnings but are not available for distribution to shareholders other than in liquidation and may limit repatriation of invested capital. The reserve funds accumulated by the Group as at June 30, 2013 was $22,080 (RMB 128.9 million) (March 31, 2013 - $20,742 or RMB 128.9 million).

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

10. Commitments

	June 30, 2013	March 31, 2013
		(restated)
Commitments on capital expenditure	$ **4,917**	$ 2,323
Commitment to contribute cash representing the remaining contribution under the joint venture agreement in return for interest in SQM JV	**-**	4,066

11. Operating Leases

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	June 30, 2013	March 31, 2013
Within one year	**$ 213**	$ 213
In the second to fifth years inclusive	**33**	86
	$ 246	$ 299

The Group as lessor

Property rental income earned during the three months ended June 30, 2013 was $58 (June 30, 2012 - $Nil). The properties held have committed tenants for the next 5 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	June 30, 2013	March 31, 2013
Within one year	**$ 232**	$ 232
In the second to fifth years inclusive	**717**	775
	$ 949	$ 1,007

12. Segmented Information

Management has determined the operating segments based on the reports of the consolidated financial information reviewed by the Board of Directors, being the chief operating decision maker, that are used to make strategic decisions. The Group has one operating segment, being the production and sale of potash-based fertilizer, along with their associated by-products. The segment result, assets and liabilities are same as those presented in the consolidated financial statements. Information about the Group's revenue from external customers is presented based on the location of the customers. The Group's assets and operations located outside the PRC are not significant.

13. Subsequent Events

On July 12, 2013, the Group incorporated its new subsidiary, Yunnan Migao Fertilizer Co.,Ltd. ("YN Migao") which is located in Yunnan, a province in southern China. YN Migao is established for the production of compound fertilizer. The total registered capital for YN Migao is RMB 60 million (approximately to $10,278) and first capital injection was RMB 12 million (approximately to $2,056).

In the future development of YN Migao, the Group also plans to create a joint venture with OJSC EuroChem Mineral Chemical Company, Russia’s largest fertilizer producer and a top ten agrochemical company globally, to produce up to 60,000 tonnes of potassium nitrate and up to 200,000 tonnes of chloride-free NPK fertilizers. The joint venture has not yet been established at the date of this report.