SPUR VENTURES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2010

Dated: August 13, 2010

T A B L E   of   C O N T E N T S

This Management Discussion & Analysis ("MD&A") is comprised of the following sections:

INTRODUCTION

This MD&A has been prepared as of August 13, 2010, and should be read in conjunction with the Company's unaudited interim consolidated financial statements with accompanying notes for the quarter ended June 30, 2010, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

The objective of this MD&A is to help the reader understand the factors affecting the Company's current and future financial performance. All amounts are reported in U.S. dollars and rounded to the nearest thousand where appropriate, unless otherwise stated. Additional information on the Company can be found in the filings with Canadian security commissions on SEDAR at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A contains "forward-looking statements". Forward-looking statements include, but are not limited to, statements with respect to the estimation of mineral resources, the timing and content of upcoming programs, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to international operations; actual results of planned expansion activities; changes in project parameters as plans continue to be refined; future prices of resources; exchange rates for Canadian, U.S. and Chinese currencies; possible variations in grade or recovery rates, accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; Chinese government policies on fertilizer and agriculture; general economic, market or business conditions as well as those factors discussed under "Description of the Business – Risk Factors" in the latest Annual Information Form. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements or information made in this MD&A, except as required under applicable securities legislation.

COMPANY PROFILE

Spur Ventures Inc. ("Spur"; Spur collectively with its subsidiaries is referred to as the "Company") is a company listed on the Toronto Stock Exchange with interests in the fertilizer industry in China. Through its 100% owned subsidiary Spur Chemicals (BVI) Inc. ("Spur BVI"), Spur has indirect interests in two sino-foreign joint ventures ("JV") in China, Yichang Maple Leaf Chemicals Ltd. ("YMC") and Yichang Spur Chemicals Ltd. ("YSC"). Spur's Chinese partner in both JVs is Hubei Yichang Phosphorus Chemical Co. Ltd ("YPCC"), a state owned enterprise of Yichang City, Hubei Province, China.

YMC was formed to construct a world scale integrated compound fertilizer production facility and develop the Dianziping and Shukongping phosphate deposits to provide a captive source of phosphate for fertilizer production. The licenses for these deposits were issued in the name of YPCC, and the original YMC JV agreement requires YPCC to transfer these licenses as part of YPCC's "in-kind" Registered Capital contribution in YMC. YPCC has yet to receive the Chinese regulatory approvals necessary for the licenses to be transferred to YMC.

YSC owns a fertilizer complex located in the Zhicheng Township of Yidu City, approximately 45 kilometers southeast of Yichang City consisting of a 100,000 mt/yr NPK plant and a 60,000 mt/yr phosphoric acid plant. The Company's original plan was to eventually increase YSC's compound fertilizer production capacity to 1 million mt/yr with both JVs forming part of a fully integrated fertilizer business from phosphate mining to production of high analysis compound fertilizers.

COMPANY HISTORY – YMC

Since the Company's founders first identified the opportunity to acquire the two phosphate deposits in the mid 90's based on geological data from the China Geological Survey Brigade, the project has evolved through a number of stages.

The exploration stage began in 1996 when Spur signed its first partnership agreement. During this initial stage Spur engaged Jacob's Engineering to complete a bankable feasibility study on the two deposits. The Jacob's study was supplemented by more detailed studies by the Nanjing Mining Institute and, during the period to 2003 the environmental impact studies required for the operation of the mines were completed and approved.

During the second stage Spur focused on formalizing legal agreements and joint venture structures. On November 9, 2003 YMC was formally established by a JV agreement which allowed Spur BVI to earn a 90% equity interest and YPCC a 10% equity interest. The calculation of YPCC's 10% interest was based on the estimated value of the two phosphate deposits plus an allowance for previous expenditures and technical know-how. Spur's interest was based on previous expenditures and cash contributions. YMC's business license was formally issued on November 24, 2003 with a 30 year term.

The YMC JV agreement required 27 separate approvals from the Yiling District, Xingshan County, Yichang City, Hubei Province and finally in Beijing from the Ministry of Commerce ("MofCom", which is responsible for foreign JV's) and the National Development Reform Commission ("NDRC", which is responsible for projects).

The third stage of implementation began positively in 2004 with the issuance to YPCC of the Dianziping mining license in February and the Shukongping mining license in October from the Central Ministry of Land and Resources ("MOLAR") in Beijing. As required in accordance with the terms of the YMC JV agreement, Spur then contributed $23.3 million (RMB158.2 million) Registered Capital as of August 2005, and set the stage for YPCC to transfer the licenses to YMC under the terms of the YMC JV Agreement.

Since the deposits are state owned assets and the YMC JV agreement provided for their transfer to a majority foreign owned JV, the transfer process is both complex and time consuming, and involves approximately seven departments at each of the city and provincial levels with a final review by MofCom, NDRC and MOLAR in Beijing.

The Shukongping mining license expired on October 9, 2009 and in April 2010 was extended to October 9, 2011. The Dianziping mining licence is valid until February 2014. A complete document package is required for the final submission for the Chinese authorities to authorize the transfer of the mining licenses from YPCC to YMC. Changes to the China Mining Law required YMC to submit an updated mining plan (none was required in 2003) and a current mine valuation (mine values are only valid for one year) to Chinese government authorities highlighted above before the transfer of licenses from YPCC to YMC can take place.

During the third quarter of 2009, Yichang City and Hubei Province governments formally approved an updated mining plan allowing mining of up to 2.0 million tonnes of phosphate rock per annum at the two mines and a Resource Report setting the deemed net present value of the two mines at RMB353.2 million ($52 million) using MOLAR's approved Discount Rate of 8.0%.

The Resource Report is not prepared in accordance with NI43-101 and is not intended to be relied upon as such by the readers. The Resource Report was solely required for purposes of Chinese mining laws and was prepared under the guidelines specified under these laws.

The Resource Report was completed by Headman Consultants of Beijing, a firm accredited to MOLAR using guidelines specified under China's mining laws, and confirmed phosphate rock reserves of :

- 30.23 M mt with average %P_2O_5 of 25.03% for the Dianziping mine and
- 30.03 M mt with average %P_2O_5 of 24.05%, for the Shukongping mine.

The deemed value of the mines at the time of signing the YMC JV agreement in 2003 was RMB57 million based on MOLAR's approved discount rate of 10%. The higher deemed current value largely reflects the five-fold increase in the market price of rock phosphate during the same time period.

This increase in the deemed value of the deposits automatically translates into an increase in YPCC's "in-kind" registered capital contribution and equity ownership position in YMC, once the licenses are transferred to YMC.

In April 2010, the YMC Business License expiry date was extended by Hubei Administration for Industry and Commerce ("Hubei AIC") from November 24, 2009 to October 31, 2010.

On May 6, 2010, a modified JV Agreement was approved by the Chinese government to give YPCC the option to earn a 51% equity ownership in YMC (taking into account previous contributions to YMC). In order to earn this equity interest, before August 31, 2010, YPCC must:

1. Transfer the Dianziping and Shukongping mines to YMC at a deemed value of $52 million (RMB 353 million); and
2. Contribute approximately $2.5 million (RMB 17 million) in cash.

The new Registered Capital amount is now $117.7 million (RMB 798 million) instead of the previous $168.1 million (RMB 1.14 billion). Spur BVI has the right to earn a 49% equity ownership in YMC, taking into account previous contributions to YMC of $23.5 million (RMB 159.6 million), by contributing $34.1 million (RMB 231.4 million). Under the terms of the original YMC joint venture agreement signed in November 2003, Spur BVI would have been required to contribute a total of $152 million (RMB 1.03 billion) to earn 90% equity ownership.

The approved capital cost of the project has been reduced to approximately $383 million (RMB 2.6 billion) from $472 million (RMB 3.2 billion) based on modifications to the mining plan, reduced infrastructure requirements at the mines and fertilizer plant sites and reduced transportation cost assumptions.

Both YPCC and Spur BVI are required to complete their respective registered capital contributions by August 31, 2010 to earn their 51% and 49% equity interests in YMC. If YPCC or Spur BVI fails to contribute the registered capital before the August 31, 2010 due date, a daily penalty of 0.06% of the unpaid Registered Capital may be assessed by the Chinese authorities If either YPCC or Spur BVI fails to contribute within 6 months after the August 31, 2010, the party not in default has the right to terminate the modified JV agreement and to seek damages from the party in default for losses. Finally the parties may enter into binding arbitration in Hong Kong.

On May 7, 2010 YMC's new business license was issued with the new YMC Board consisting of 7 members, 4 from YPCC and 3 from Spur BVI with the Chair nominated by YPCC and the Vice Chair by Spur BVI. Under Chinese regulations, the formal process for YPCC to assume full control of YMC requires an external audit of YMC and YPCC has given notice to Spur that it wishes to proceed with this audit as soon as possible.

YMC continues to be accounted for as a variable interest entity (VIE) and thus the Company is still consolidating its 90% interest in YMC as the Company remains the primary beneficiary as defined by CICA Handbook Accounting Guideline AcG-15 ("AcG 15).

COMPANY HISTORY – YSC

YSC's original plant was built in 1999 for approximately RMB50 million ($7 million) and commissioned in 2000. The plant has its own rail spur on a national railway line and its own jetty on the Yangtze River both facilitating low-cost access to inputs and markets.

When Spur acquired the fertilizer complex in 2003 for $2.57 million it was producing NPK fertilizer. At the time of its acquisition, management understood that the plant would not be profitable on a stand alone basis until a certain level of integration and economies of scale were achieved. As a result, in March 2005 Spur built a 60,000 mt/yr phosphoric acid plant in order to allow YSC to produce its own phosphoric acid from purchased phosphate rock and sulphuric acid with the longer term objective of replacing the purchased rock with phosphate rock mined by YMC. The phosphoric acid plant was completed in six months (vs. planned nine months) at a cost of U.S. $6.85 million.

YSC operations improved considerably under Spur BVI management. The plant set new daily and monthly production and sales records, made a modest gross profit in markets where competitors were losing money, and was able to run at its full 100,000 mt capacity (compared to the previous best performance of 30,000 mt achieved prior to its acquisition by the Company).

Management concluded in the third quarter of 2007 that price levels of certain raw materials, especially potash and sulphuric acid, were too high for the NPK fertilizer facility to be viable, and decided to upgrade the facility to produce MAP (Mono-ammonium phosphate), which does not rely on potash and in management's view had better economic prospects.

During 2008, the Company commenced construction activity to convert the fertilizer facility into a MAP plant. In October 2008, however, the Company announced the suspension of construction of the MAP plant pending a complete review of the Chinese economy and the fertilizer market.

The Company is unwilling to make significant further investments in YMC and YSC until such time as it has the security of the mining licenses being formally transferred to YMC.

SIGNIFICANT EVENTS

- **Solid Cash Position Maintained**

  Cash and Guaranteed Investment Certificates (GICs) with major Canadian financial institutions stood at approximately $22.6 million (approximately $23.5 million Canadian dollars, mainly held in Canadian dollar denominated accounts) at U.S.$1 to CDN$1.04. The Company has no asset backed commercial paper.

- **Modified YMC JV Agreement Approved**

On May 6, 2010 a modified JV Agreement was approved by the Chinese government granting YPCC the right to earn a 51% equity ownership in YMC (taking into account previous contributions to YMC). In order to earn this equity interest, before August 31, 2010, YPCC must:

1. Transfer the Dianziping and Shukongping mines to YMC at a deemed value, for purposes of determination of Registered Capital under Chinese laws, of $52 million (RMB 353 million); and
2. Contribute approximately $2.5 million (RMB 17 million) in cash.

The higher equity position attributable to YPCC relates to it its expected "in-kind" contribution of the two mines, which have significantly increased in value since the original YMC JV Agreement was established in 2003. In addition, it is a reflection of China's national strategy for the Chinese partner to control foreign joint ventures in the natural resources sectors. Spur has recognized the increased value of the mines, and that the modified JV Agreement creates a more equal partnership which should help to advance both official approvals for and the actual project itself.

The new Registered Capital amount is established at $117.7 million (RMB 798 million) instead of the previous $168.1 million (RMB 1.14 billion). Spur BVI can earn a 49% equity ownership in YMC, taking into account previous contributions to YMC of $23.5 million (RMB 159.6 million), and is required to contribute $34.1 million (RMB 231.4 million) in order to maintain this equity interest. Under the terms of the original YMC joint venture agreement signed in November 2003, Spur BVI would have been required to contribute a total of $152 million (RMB 1.03 billion) to maintain a 90% equity ownership.

Both YPCC and Spur BVI are required to complete their respective Registered Capital contributions by August 31, 2010 to earn their 51% and 49% equity interest in YMC. If YPCC or Spur BVI fails to contribute the Registered Capital before the August 31, 2010 due date, a daily penalty at a daily rate of 0.06% of unpaid Registered Capital may be assessed by the Chinese authorities. If either YPCC or Spur BVI fails to contribute within 6 months after the August 31, 2010, the party not in default has the right to terminate the modified JV agreement and to seek damages from the party in default for losses.

On May 7, 2010 YMC's new business license was issued with the new YMC Board consisting of 7 members, 4 from YPCC and 3 from Spur BVI with the Chair nominated by YPCC and the Vice Chair by Spur BVI. Under Chinese regulations, the formal process for YPCC to assume full control of YMC requires an external audit of YMC and YPCC has given notice to Spur that it wishes to proceed with this audit as soon as possible.

- **Integrated Phosphate and MAP Project Update**

  During 2008, the Company commenced construction activity to convert YSC's fertilizer facility into a MAP plant. As of the date of this report, the total cost to construct the plant has been estimated to be approximately $18.46 million (RMB126 million). YMC currently has $9.68 million (RMB65.63 million) in signed contracts for the development of the MAP project, $3.22 million (RMB21.83 million) has been paid, $1.01 million (RMB6.84 million) has been accrued, and $5.45 million (RMB36.96 million) has been disclosed as commitments.

  On October 30, 2008, the Company announced the suspension of construction of the MAP plant pending a complete review of the impact of the global financial crisis on the Chinese economy and the fertilizer sector. Management estimates that, through negotiations with suppliers and contractors, as of the date of this report, final contract obligations for the MAP plant may be less than $1 million, but no settlements have been made to date.

  In order to reduce costs, the Company terminated the employment of approximately 100 employees at both YSC and YMC in 2009, all in accordance with the China's new Employment Law. This leaves a core group of 22 employees to maintain the facilities and negotiate with contractors and suppliers.

  No further significant investment will be made in the MAP project until such time as the mining licenses have been transferred to YMC. Once the licenses have been transferred, these mines should be sufficient collateral for debt financing from Chinese banks and the Company will then decide how to proceed with additional financing for the project.

- **Diversifying Spur**

  Spur continues to analyze new opportunities in the natural resource sector.

  During 2009 Spur received 750,000 shares in a natural resource company which listed on the Toronto Stock Exchange ("TSX") in January 2010, as consideration for a $326,433 (CDN$350,000) loan made to a junior mining company listed on the TSX Venture exchange. The loan was extended at an effective interest rate of 24% per annum and remained outstanding for approximately 6 months.

  In January 2010 the Company sold all of the shares for $486,620 (CDN$509,296). Taking into account interest earned on the loan of CDN$48,548, the total proceeds to Spur amounted to CDN$557,844, an approximately 101% return on an annualized basis.

  Potential opportunities in both the agriculture and resource sectors continue to be reviewed and will be pursued where merited.

F I N A N C I A L   R E S U L T S

Results of Operations – Q2 2010

YMC has been focusing on the transfer of the mining licenses from YPCC, and YSC has been idle since October, 2007 for reasons described in the "Company Profile".

<u>Spur Consolidated Results</u>

Q2 2010 loss was $570,000 (Q2 2009 loss: $567,000) and the YTD 2010 loss was $984,000 (YTD 2009 loss: $1,303,000). The $319,000 reduction in YTD loss was mainly attributable to $366,000 reduction in operating expenses offset by an increase of $40,000 in the comparative foreign exchange loss. Loss per share in Q2 2010 was $0.009 (Q2 2009 loss per share: $0.009), and YTD 2010 loss per share was $0.016 (YTD 2009 loss per share: $0.022).

Interest income in Q2 2010 was $51,000 (Q2 2009: $46,000) and YTD interest income was $91,000 (YTD 2009: $95,000) mainly due to a relatively stable interest rate level for Canadian Dollar deposits and GICs on hand.

YTD 2010 operating expenses were $1,061,000 (YTD 2009: $1,427,000). The $366,000 reduction was primarily attributable to a reduction in activities in China due to the delay in transfer of the mining licenses and the idling of the YSC plant. Specific reductions include: wages and benefits ($198,000), mineral property costs ($62,000), stock-based compensation expenses ($54,000), travel expenses ($12,000), and office expenses ($5,000).

Significant balance sheet item changes between the end of Q2 2010 and 2009 year end include: $17,327,000 increase in short-term deposits as cash deposits were transferred into higher yield short-term GICs, and a $487,000 decrease in marketable securities resulting from the sale of securities received in 2009 as partial consideration in respect of a loan made by the Company.

The Company continues to maintain a solid cash position with cash and cash equivalents, short-term GICs and marketable securities at the end of Q2 2010 amounting to $22.34 million compared to $ 23.31 million at December 31, 2009.

<u>Foreign Exchange Gain or Loss</u>

Q2 2010 foreign exchange loss was $75,000, compared to a foreign exchange gain of $35,000 in Q2 2009, and YTD 2010 foreign exchange loss was $26,000 (YTD 2009: $14,000 gain).

The Company conducts business in China, with most costs and revenues in Chinese Renminbi, while the Vancouver head office incurs expenses in Canadian dollars. Foreign exchange losses or gains are dependent upon the exchange rate relationship among the U.S. Dollar, Chinese Renminbi and Canadian Dollar. It is anticipated that exchange rates will be volatile for the foreseeable future. This may result in foreign exchange fluctuating between gains or losses on a quarterly basis. The Company does not use derivatives to hedge against exposures to foreign currency arising from the Company's balance sheet liabilities; therefore the Company is exposed to future fluctuations in the three currencies.

Summary of Quarterly Results (unaudited)

	Qtr ended Jun. 30, 2010	Qtr ended Mar. 31, 2010	Qtr ended Dec. 31, 2009	Qtr ended Sep. 30, 2009	Qtr ended Jun. 30, 2009	Qtr ended Mar. 31, 2009	Qtr ended Dec. 31, 2008	Qtr ended Sep. 30, 2008
Total revenues ($)	-	11,424	58,592	-	-	15,145	-	52,578
Earnings (loss) ($)	(569,586)	(415,013)	116,134	(356,484)	(566,820)	(736,039)	2,484,417	(468,688)
Earnings/(loss) per share ($)	(0.009)	(0.007)	0.002	(0.006)	(0.009)	(0.012)	0.041	(0.008)
Weighted average number of shares outstanding	60,407,187	60,407,187	60,407,187	60,407,187	60,407,187	60,329,196	59,915,019	60,389,796

Results of some quarters include significant items that do not normally occur quarterly. Q4 2008 results included a $3,458,000 foreign exchange gain. Q4 2009 results included a $486,620 gain on fair value of marketable securities.

L I Q U I D I T Y and C A P I T A L R E S O U R C E S

As at June 30, 2010, the Company maintained a balance of $22.33 million in cash and cash equivalents and short-term GICs, including $22.32 million in deposits and GICs with major Canadian financial institutions.

As at June 30, 2010, YMC had $9.68 million (RMB65.63 million) in signed contracts related to the MAP project, of which $3.22 million (RMB21.83 million) has been paid, $1.01 million (RMB6.84 million) has been accrued, and $5.45 million (RMB36.96 million) remains as a commitment. In October 2009, the Company entered into a five-year office lease agreement commencing October 1, 2010 to share office space and related costs with another company. A summary of the Company's commitment in the next five years is as follows:

	MAP project contracts	Office lease	Total
2010	$5,456,769	$28,965	$5,485,735
2011	-	$99,077	99,077
2012	-	$92,306	92,306
2013	-	$102,555	102,555
2014 & beyond	-	$181,754	181,754

The Company does not have any off-balance sheet arrangements.

The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months**.**

O U T L O O K

The Company is focusing on the successful transfer of the two mining licenses from YPCC to YMC, after which it will be necessary for Spur to complete its Registered Capital contributions by August 31, 2010 as specified in the new JV agreement. In anticipation of the Company being required to contribute significant cash to YMC, the Company is in discussions with potential investment partners.

Transactions with Related Parties

During the three months ended June 30, 2010, the Company paid consulting fees of $20,317 to one company controlled by one director (2009: $35,880 to two companies controlled by one director and one officer).

During the six months ended June 30, 2010, the Company paid consulting fees of $64,889 to two companies controlled by one officer and one director (2009: $69,490 to two companies controlled by one officer and one director).

Accounts payable to these companies for expenses incurred were $nil at the end of June 30, 2010 and 2009.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the fair value consideration established and agreed to by the related parties.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited annual consolidated financial statements for the year ended December 31, 2009 includes a summary of the Company's significant accounting policies. The following policies are considered to be critical accounting policies since they involve the use of significant estimates.

Impairment of long-lived assets

Where events or changes in circumstances suggest impairment, management reviews the future net cash flows of each long-lived asset. Estimated future net cash flows are calculated using estimated future prices, selling prices for fertilizer products, and operating, capital and reclamation costs on an undiscounted basis to determine if the carrying amount is not recoverable. If the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal, reductions in the carrying value of such long-lived asset would be recorded to the extent the net book value of the related asset exceeds its fair value (estimated by the net present value of expected future net cash flows).

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered.

Management's estimates of mineral prices, selling prices for fertilizer products, and operating, capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of long-lived assets. Although management has made its best estimate of these factors, it is possible that changes may occur in the near term which could adversely affect management's estimate of the net cash flow to be generated from the Company's assets.

For the quarter ended June 30, 2010, the Company noted several impairment indicators including but not limited to the decline in the Company's share price, low commodity prices, the Chinese government extension of export tariffs and the uncertainty in the near term fertilizer markets both in China and globally.

As a result, management conducted a recoverability analysis on its long-lived assets including its property, plant and equipment and land use rights in China. Management have concluded that these long-lived assets are not impaired but have identified certain significant measurement uncertainties, which are disclosed in Note 1 to the consolidated financial statements for the period ended June 30, 2010, as follows:

Management have not recorded a current impairment charge against the existing fertilizer plant and equipment and land use rights, as management remain confident that they can obtain the required financing for the MAP plant and that their conversion and expansion plans for the MAP plant will generate profitable operations in the future. There remain additional risks and uncertainties that the transfer of the mining licenses will be approved, that economic ore reserves will be identified and that the significant equity or debt financing for the Dianziping and Shukongping phosphate project will be available to the Company. The Company also faces additional risks and uncertainties, including, but not limited to, raw material and construction cost risks, product marketing risks, and political risks.

The recoverability of the Company's investment in property rights, plant and equipment in China is dependent upon these plans or the ability of the Company to dispose of the assets and recover its investment. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should these material risks and measurement uncertainties prove to be insurmountable, and these adjustments could be material.

Changes in Accounting Policies including Initial Adoption

There are three CICA accounting standards issued in January 2009 and adopted by the Company on January 1, 2010, as follows: the CICA Handbook Sections 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which replace CICA Handbook Sections 1581, *Business Combinations*, and Section 1600, *Consolidated Financial Statements*. Section 1582 establishes accounting standards equivalent to International Financial Reporting Standards IFRS 3, *"Business Combinations"*, and is applicable for business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for interim and annual consolidated financial statements for fiscal year beginning January 1, 2011. Early adoption of Section 1582, 1601 and 1602 is permitted. Adoption of this standard had no material impact on the Company's consolidated financial statements.

Requirement to adopt International Financial Reporting Standards (IFRS) starting 2011

In February 2008, the Canadian Accounting Standards Board ("AcSB") approved a strategic plan which requires public companies to converge with IFRS for fiscal periods beginning on or after January 1, 2011. The Company will therefore be required to have comparative financial information prepared under IFRS as of January 1, 2010.

The Company has commenced the process of converting its financial statements from Canadian GAAP to IFRS in 2010 so that the Company can have IFRS financial statements ready as of January 1, 2011. The Company plans to maintain dual Canadian-GAAP and IFRS accounts to meet its Canadian GAAP reporting obligations before 2011 and to have the 2010 comparative set of IFRS financial statements required for 2011.

Outstanding Share Data

As of the date of this report, the Company had the following shares and options outstanding:

	Number	Exercise Price CAD	Expiry Date
Shares	60,407,187	N/A	N/A
Stock options	625,000	1.03	July 4, 2011
Stock options	200,000	0.64	January 3, 2012
Stock options	20,000	0.50	December 3, 2012
Stock options	830,000	0.90	June 26, 2013
Stock options	300,000	0.28	July 28, 2014
Total	62,382,187		

Options granted subsequent to December 31, 2006 vest over a three-year period, with one-third of the options vesting one year after the date of grant, one-third two years after the date of grant, and the remaining one third three years after the date of grant.

During the three-month period ended June 30, 2010, compensation expense of $32,491 was recognized (2009: $60,204) for options outstanding.

During the six-month period ended June 30, 2010, compensation expense of $73,031 was recognized (2009: $127,388) for options outstanding.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with assumptions for the grants as follows:

	2009
Risk free interest rate	2.25% - 3.00%
Expected life of options in years	5 years
Expected volatility	73% - 84%
Dividend per share	$0.00

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administration, was conducted as of December 31, 2009 under the supervision of the Company's Audit Committee and with the participation of management. Based on the results of that evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Since the December 31, 2009 evaluation, there have been no adverse changes to the Company's controls and procedures and they continue to remain effective.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material affect on the annual or interim financial statements.an evaluation of the design effectiveness of the Company's internal controls over financial reporting was conducted as of December 31, 2009 by the Company's management, including the Chief Executive Officer and Interim Chief Financial Officer. Based on this evaluation, management has concluded that the design of the Company's internal controls over financial reporting was effective.

There were no adverse changes in the Company's internal controls over financial reporting during the period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and the Interim Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. In an emerging economy such as China, the potential for fraud is very real and the Company understands that no system of internal controls, no matter how good, can prevent inappropriate actions by an individual employee.

Financial instruments and risks

Management has determined that there are no embedded derivatives.

Credit risk

The Company maintains a substantial portion of its cash and cash equivalents with major financial institutions in Canada and China. The Company is not currently subject to a concentration of credit risk in relation to its accounts receivable, due to the idling of the fertilizer plant as discussed in the Section "Company History-YSC".

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Foreign currency risk

A substantial portion of the Company's business is carried out in Chinese Renminbi, and the Company maintains Renminbi denominated bank accounts and deposits. Fluctuations in exchange rates among the Canadian dollar and Chinese Renminbi and U.S. dollar could have a material effect on the business, results of operations and financial condition of the Company. Based on the balances as at June 30, 2010, other things being equal, a 1% increase (decrease) in the exchange rate of converting one U.S. dollar into Canadian dollars on that day would have resulted in an increase (decrease) of approximately $277,000 in earnings before income taxes; a 1% increase (decrease) in the exchange rate of converting one Canadian dollar into Chinese Reminbi on that day would have resulted in a decrease (increase) of approximately $15,000 in earnings before income taxes for the quarter ended June 30, 2010.

Interest rate risk

The Company's interest rate risk mainly arises from the interest rate impact on its interest income derived from U.S. Dollar, Canadian Dollar and Chinese Renminbi cash and deposits. The Company's policy is to receive interest based on market rates, and, where necessary, to borrow at fixed rates although as at June 30, 2010, the Company had no outstanding debt. Based on the balances of cash and cash equivalents and short-term investments as at June 30, 2010, other things being equal, a 1% increase (decrease) in the interest rate on that day would have resulted in an increase (decrease) of approximately $56,000 in earnings before income taxes for the quarter ended June 30, 2010.

Other Risk Factors

The Company's business is in China which, despite recent government policy changes, carries risk for foreign owned operations. Please refer to the Company's 2009 Annual Information Form which is available on the SEDAR database at www.sedar.com.

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