

H. K. Migao Industry Limited

Management Discussion and Analysis

For The Six Months Ended March 31, 2006

(Second Quarter 2006)

Prepared by Management

(Unaudited)

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of H.K. Migao Industry Limited (the "Company" or "HK Migao") and the financial performance for the six months ended March 31, 2006. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes as at and for the period ended March 31, 2006 and the audited combined financial statements and related notes as at and for the period ended September 30, 2005.

This management discussion and analysis compares the financial performance of the Company for the three month period ended March 31, 2006 to the three month period ended December 31, 2005. This comparison is considered more meaningful than comparison to the same periods in the prior fiscal year as some of the Company's subsidiaries were not operational in the prior fiscal year.

At March 31, 2006, the Company had 20,400 common shares outstanding. At May 30, 2006, the Company has 27,265,988 common shares outstanding.

All amounts are in Canadian dollars unless otherwise noted.

Forward-Looking Information

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address HK Migao's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at May 30, 2006.

Overview

HK Migao, through its wholly owned subsidiaries (referred herewith as “Sichuan Migao”, “Guangdong Migao” and “Liaoning Migao”), owns and operates fertilizer production plants in various strategic locations in the People’s Republic of China (“PRC”) for the production and sales of specialty potash fertilizer (potassium nitrate and potassium sulphate), along with their by-products, to the Chinese domestic agricultural market. HK Migao, through its wholly owned subsidiaries, serves China’s economic crop growers by improving crop quality and increasing crop yield in an environmentally responsible manner, and contributing to the overall agricultural development of China.

China has few potash reserves and most are concentrated in the northwest where transportation costs to the economically developed northeast region are prohibitive. Because of this shortage, the development of nitrogenous and phosphorous fertilizers in China has been rapid but the development of potash fertilizer has been slow, causing a usage imbalance. HK Migao is positioned to capitalize on the high value added chemical fertilizer market in China.

During the quarter, HK Migao operated the Sichuan and Guangdong facilities at full capacity. Liaoning Migao completed its Phase I construction and was put into operation in December of 2005, with annual production capacity of 40,000 tons of granular and powdered potassium sulphate and 48,000 tons of the by-product hydrochloric acid. Liaoning Migao attained full production capacity at the end of March 2006.

Results of Operations

Results for the previous quarter is used for comparison purposes in this section.

Consolidated Results

The following table sets out the Company’s consolidated quarterly results for the most recently completed quarters.

Quarter ended

In thousands of Canadian dollars

Unaudited

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Revenues	\$ 15,100	\$ 12,388
Cost of goods sold	10,790	9,687

Gross profit	4,310	2,701
Operating expenses:		
Selling expenses	770	463
General and administrative expenses	367	278
Professional and consulting expenses	69	151
Pre-operating costs	-	125
Total operating expenses	1,206	1,017
Income from operation before the following	3,104	1,684
Other income:		
Interest income	2	2
Income before income taxes	3,106	1,686
Provision for income taxes	157	-
Net income	\$ 2,949	\$ 1,686

Revenues

Revenues for the quarter ended March 31, 2006 were \$15.1 million, an increase of \$2.7 million or 22% compared with \$12.4 million for the first quarter of fiscal 2006.

Revenues for the six months period ended March 31, 2006 were \$27.5 million.

The Company continues to see strong demand for its core products: potassium nitrate and potassium sulphate, as well as its by-products: ammonium chloride and hydrochloric acid.

HK Migao earns all of its revenues in Chinese Renminbi. Accordingly, reported revenues will fluctuate with changes in the exchange rate to Canadian dollars. The average exchange rate for the quarter ended March 31, 2006 was \$0.1434 Canadian dollars to 1 Chinese Renminbi, and \$0.1453 for the first quarter of fiscal 2006.

Geographic Revenues

The Company earns virtually all of its revenues in the People's Republic of China, with only minor export sales. At the moment, there is no plan to expand into exporting products in a large scale, as the Chinese demand for its products are far from satiated.

Gross Margin

Gross margin as a percentage of revenues increased to 28.54% for the quarter ended March 31, 2006, up from 21.81% for the first quarter of fiscal 2006. Gross margin for the six months ended March 31, 2006 was 25.5% of revenues.

The increase in gross margin is related to a combination of improved operational efficiencies, increased production of potassium sulphate and increased selling price of certain products.

General and Administrative Expenditures

General and administrative expenditures were \$0.37 million or 2.4% of sales for the quarter ended March 31, 2006 compared to \$0.28 million or 2.2% of sales for the first quarter of fiscal 2006. General and administrative expenditures for the six months ended March 31, 2006 were \$0.65 million.

The slight increase in general and administrative expenses is a result of production-related increases in personnel and facilities.

General and administrative expenditures include personnel costs for production, finance, human resources and management staff as well as facilities expenses, supplies and equipment depreciation. These costs are, for the most part, fixed and do not fluctuate significantly in relation to revenues.

Selling Expenditures

Selling expenditures were \$0.77 million or 5.1% of sales for the quarter ended March 31, 2006 compared to \$0.46 million or 3.74% of sales for the first quarter of fiscal 2006. Selling expenditures for the six months ended March 31, 2006 were \$1.23 million.

The increase in selling expenditures is a result of increased production and sales and increased transportation costs.

Selling expenditures include transportation and related costs incurred for delivery of goods to customers and depreciation on fixed assets used by the sales department.

Earnings

Net income for the quarter ended March 31, 2006 was \$2.95 million, an increase of \$1.26 million or 74.9% compared with \$1.69 million for the first quarter of fiscal 2006. Net income for the six months ended March 31, 2006 was \$4.64 million.

Expansion Projects

Guangdong Migao

For a budgeted capital cost of \$2.46 million, Guangdong Migao commenced the Phase II potassium sulphate project in April 2006, which includes the following:

- To add 40,000 tons of potassium sulphate production, 20,000 tons of which will be granular potassium sulphate. After completion, the potassium sulphate production capacity will reach 80,000 tons, with 96,000 tons of the by-product hydrochloric acid. This project is anticipated to be completed and put into production by November 2006.

For a budgeted capital cost of \$10.45 million, Guangdong Migao is planning to commence a sulphuric acid project in July 2006, which includes the following:

- Build a 200,000 ton sulphuric acid production unit of which 50,000 tons are projected for self-use, the rest for sale to third parties. Heat generated from the production of sulphuric acid can be used for generating electric power, part of which will be for self-use in order to lower energy costs with the remainder to be sold back to the electrical network. This project is anticipated to be completed and put into production by May of 2007.

Sichuan Migao

Because of the success of the Company's recent financing activity, the expansion plan at Sichuan Migao has been accelerated with preliminary construction design having been started recently. The Phase III potassium nitrate project includes the following:

- To add 50,000 tons of potassium nitrate production. After completion, the potassium nitrate production capacity will reach 100,000 tons, with 56,000 tons of the by-product ammonium chloride. This project is anticipated to be completed by the end of calendar 2006.

Liquidity and Capital Resources

Cash Position

Cash and cash equivalents totalled \$2.7 million representing an increase of \$1.38 million from the December 31, 2005 balance. This increase is a result of \$1.08 million of cash flows generated by operations and \$1.7 million from a bank loan and related parties advances offset by \$1.4 million invested in capital assets, construction of Liaoning and Guangdong Migao and payments for land use rights.

HK Migao has approximately \$1.7 million of land use rights payable. These payables may come due in the third quarter of fiscal 2006. The Company is considering various alternatives which include, paying off from cash reserves, cash flow generated from operations, or extending the terms of payment with local government.

The Company believes that its current cash position is sufficient to meet the ongoing needs of the business. HK Migao may however be required to access capital markets to fund future investments in plant construction.

Working Capital

Working capital was \$7.25 million as of March 31, 2006. It increased \$2.8 million compared to December 31, 2005. This increase is primarily attributable to the \$4.7 million increase in accounts receivable, \$1.3 million increase in inventory, offset by \$0.8 million increase in accounts payable and accrued liabilities and \$1.8 million increase in customer deposits.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$8.78 million at March 31, 2006 compared to \$8.8 million at December 31, 2005.

Construction in progress was \$5.45 million at March 31, 2006 compared to \$5.12 million at December 31, 2005. This is mainly due to \$0.29 million attributed to Liaoning Migao.

Land use rights net of accumulated amortization remained at \$5.7 million at March 31, 2006. No new land use rights were acquired during the second quarter of fiscal 2006.

Contractual Obligation Summary

Payment Due by Period

	<u>Total</u>	<u>within 1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>5+ years</u>
Long Term Debt	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Short Term Debt	1,456,000	1,456,000	---	---	---
Capital Lease Obligation	---	---	---	---	---
Land Use Right Obligation (Note 1)	1,705,869	1,705,869	---	---	---
Operating Obligation	2,446,837	2,446,837	---	---	---
Purchase Obligation	6,119,709	6,119,709	---	---	---
Other Long Term Obligation (Note 2)	6,592,438	---	6,592,438	---	---

Note 1:

As of March 31, 2006, HK Migao, through its wholly owned subsidiaries, has six land leases from the Chinese government with a term of fifty years. Land use right certificates for four of the land leases are not yet obtained due to the delay of government agency processes. Contractually, HK Migao, through its wholly owned subsidiaries, needs to pay approximately \$1.7 million for these certificates when issued within a short period. However, it is common practice in the PRC that such payment terms be negotiated.

Note 2:

This represents liabilities to LYEDC. On October 18, 2005, agreements were reached and signed for extension of these liabilities to December 31, 2007, with a further extension to January 1, 2009. These loans are non-interest bearing up to December 31, 2005 and thereafter bear interest at 2% per annum until maturity on January 1, 2009. HK Migao is confident in its cash generating ability in meeting its interest obligation (approximately \$130,000 per year, starting January 1, 2006) and its principal payment obligation at maturity, either through cash and/or equity.

HK Migao has been funding the development of its production plants in Sichuan, Guangdong and Liaoning through financing from its former shareholders, namely LYEDC and LIUMIX. Details of funding as of various period-end dates are as follows.

	<u>March 31, 2006</u>	<u>December 31, 2005</u>	<u>September 30, 2005</u>
Funds advanced	\$9,039,275	\$8,737,245	\$15,938,477

In order to finance HK Migao's future development and expansion, management will seek to raise additional funds until such time as cash flow from operations is sufficient to fund the expansion.

Off-Balance Sheet Arrangement

Each of Sichuan Migao and Guangdong Migao has provided guarantees for bank loans obtained by LYEDC, for a maximum of approximately \$7.2 million (RMB 50 million) of which \$1.456 million (RMB 10 million) was outstanding as of March 31, 2006. The guarantee provided by Sichuan Migao was removed on February 17, 2006 and the guarantee provided by Guangdong Migao was removed on April 4, 2006. Thus, as of the date of this MD&A, both guarantees provided by Sichuan Migao and Guangdong Migao have been removed.

Other than this, HK Migao does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of HK Migao including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

In October 2005, notes payable in the amounts of \$5,365,653 and \$3,800,022 to LYEDC and LIUMIX, respectively, were transferred to Migao International Holding Limited, a company incorporated under the laws of the British Virgin Islands and majority owned by the shareholder of LYEDC. On November 10, 2005, these notes payable were converted into a total of 10,400 common shares of the Company by Migao International Holding Limited, of which 9,100 were issued on December 30, 2005 and 1,300 were issued on March 22, 2006.

As of March 31, 2006, amounts due to LYEDC and LIUMIX are \$9,031,366 and \$7,909, respectively. LYEDC and LIUMIX are former shareholders of HK Migao, which owns 100% of Sichuan Migao, Guangdong Migao and Liaoning Migao. The funds were advanced throughout the last three years in order to finance the construction and expansion of the different production plants of Sichuan Migao, Guangdong Migao and Liaoning Migao. Out of such, the term for the amount of \$6,592,438 owing to LYEDC has been extended to January 1, 2009.

Proposed Transactions

HK Migao is not a party to any proposed transaction, other than the aforesaid, that may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

Notable Events

- On May 3, 2006, shareholders of Fox Mountain Explorations Ltd. ("Fox") approved the transaction whereby Fox acquired 100% of the shares of the Company under a reverse takeover.
- On May 18, 2006 (the "Closing Date"), the combined company changed its name to "Migao Corporation" ("Migao"). On the same date, Migao completed a private placement financing for a gross amount of \$18.1 million of subscription receipts at a price of \$2.85 per unit, totalling 6,363,000 units, with each unit consisting of one common share and one-half of one additional common share purchase warrant of Migao. Each whole warrant will entitle the holder to purchase one common share, at a price of \$3.70, for a period of 24 months following the Closing Date.
- On May 25, 2006, Migao was listed on the TSX Venture Exchange under the stock symbol "MGO".

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's unaudited Consolidated Financial Statements for the three and six month periods ended March 31, 2006 and notes thereto. To aid in understanding the Company's financial reporting its critical accounting policies are described below. Accounting policies are critical if they rely on a substantial amount of judgement in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

Basis of Presentation

H.K. Migao Industry Limited (the "Company") was incorporated in August 2005 in Hong Kong to hold 100% of Sichuan Migao Chemical Fertilizer Industry Co. Ltd. ("Sichuan"), Guangdong Migao Chemical Co. Ltd. ("Guangdong"), and Liaoning Migao Chemical Co. Ltd. ("Liaoning") (collectively, the "Subsidiaries"). Prior to the incorporation of the Company, the Subsidiaries were 75% owned by Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") and 25% owned by Russia Liumix Chemical Co. Ltd. ("Liumix"). LYEDC and the Company are ultimately controlled by the same shareholder. The Subsidiaries, which were incorporated in the PRC as Foreign Investment Enterprises, are engaged in the one operating segment, being production and sales of chemical fertilizer entirely within the PRC.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of H.K. Migao Industry Limited and its subsidiaries in the PRC. These interim financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recent annual

financial statements of the Company. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the nine months ended September 30, 2005. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

Cash Equivalents

For the purpose of the combined statements of cash flows, the Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is determined using the weighted-average method. Net realizable value represents the anticipated selling price less all further costs for distribution.

Plant and Equipment

Plant and equipment are recorded at cost. Amortization is provided over the expected useful lives of the plant and equipment with a 10% residual value using the following methods and annual rates:

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

Construction in Progress

Construction in progress represents properties under construction and are stated at cost. Construction in progress is not amortized until such time as the assets are completed and put into operational use.

Land Use Rights

Land use rights are recorded at cost and are amortized over 50 years, which is the term of the land use right set by the Chinese government.

Impairment of Long-lived Assets

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on income tax assets and liabilities is reflected in operations in the period in which the change occurs. Valuation allowances are established when necessary to reduce future tax assets to the amount expected to be realized.

Revenue Recognition

Revenue is recognized when goods are shipped and all significant risks and rewards of ownership passed to the customer with collection of revenue reasonably assured.

Foreign Exchange

The Company's functional currency is the Chinese Renminbi ("RMB") and its reporting currency is the Canadian dollar. The accounts of the Company are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the year-end rate of exchange. Revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as a cumulative translation adjustment.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments and Other Instruments

HK Migao is not a party to any financial instrument, as the term is defined in National Instrument 51-102F1, paragraph 1.14.

Capital Structure

HK Migao is authorized to issue an unlimited number of common shares, each common share providing the holder with one vote. As of March 31, 2006, 20,400 shares were issued and outstanding.

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In our Management Information Circular dated April 10, 2006, HK Migao provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. In management's opinion, there has been no material change in the nature or magnitude of the risks faced by the Company.