

Migao Corporation

Management Discussion and Analysis

**Third Quarter
Ended June 30, 2006**

Prepared by Management
(Unaudited)

August 15, 2006

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Migao Corporation (the "Company" or "Migao") and the financial performance for the three and nine months ended June 30, 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 June 30, 2006 and the audited Combined Financial Statements and related notes as at and for the period ended September 30, 2005. Reference should also be made to the Company's filings with Canadian securities regulatory authorities which are available at www.sedar.com.

All amounts are in Canadian dollars unless otherwise noted and prepared in accordance with Canadian Generally Accepted Accounting Policies.

At June 30, 2006, the Company had 29,111,921 common shares outstanding. At August 15, 2006, the Company has 29,111,921 common shares outstanding.

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 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 August 15, 2006.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the Risk Factors section starting on page 14.

Overview

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. These fertilizers provide China’s economic crop (i.e. tobacco, fruit and vegetable) growers added opportunities for 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 all are concentrated in the northwest where transportation costs to the economically developed eastern and southern coastal regions 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. Migao is positioned to capitalize on the value added chemical fertilizer market in China.

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

Notable Events

- On May 3, 2006, shareholders of Fox Mountain Explorations Ltd. (“Fox”) approved the transaction whereby Fox acquired 100% of the shares of H.K. Migao Industry Limited (“HK Migao”) under a reverse takeover.
- On May 18, 2006 (the “Closing Date”), the combined company changed its name to “Migao Corporation”. 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”.
- On June 7, 2006, the entire long-term debt in the amount of RMB 45,277,733 (\$6,278,482 converted using the exchange rate on June 7, 2006) was converted into 1,846,612 common shares of the Company at \$3.40 per share, the closing trading price on June 7, 2006.

Results of Operations

Consolidated Results

The following table sets out the Company's consolidated results for quarter and nine months ended June 30, 2006, compared with the same periods last year.

<i>In thousands of Canadian dollars (except for % figures)</i>	Q3 2006	Q3 2005	Increase (Decrease)	% Increase (Decrease)	YTD 2006	YTD 2005	Increase (Decrease)	% Increase (Decrease)
Sales	15,426	6,847	8,579	125%	42,915	21,185	21,730	103%
Gross profit	3,113	520	2,593	499%	10,124	2,345	7,779	332%
Gross profit (% of sales)	20%	8%	12%	150%	24%	11%	13%	118%
Selling expenses	193	231	(38)	(16%)	1,427	532	895	168%
Selling expenses (% of sales)	1%	3%	(2%)	(67%)	3%	3%	-	-
G & A	545	344	201	59%	1,190	695	495	71%
G & A (% of sales)	4%	5%	(1%)	(20%)	3%	3%	-	-
Professional	124	-	124	NA	344	-	344	NA
Professional (% of sales)	1%	-	1%	NA	1%	-	1%	NA
Pre-operating costs	-	-	-	-	125	55	70	128%
Pre-operating costs (% of sales)	-	-	-	-	0.3%	0.3%	-	-
Stock-based compensation	120	-	120	NA	120	-	120	NA
Stock-based compensation (% of sales)	1%	-	1%	NA	0.3%	-	0.3%	NA
Other income	36	1	35	3396%	41	6	35	613%
Other income (% of sales)	0.2%	0.02%	0.18%	900%	0.1%	0.03%	0.07%	233%
Income taxes	161	-	161	NA	318	-	318	NA
Income taxes (% of sales)	1%	-	1%	NA	1%	-	1%	NA
Effective tax rate (% of net income)	7%	-	7%	NA	5%	-	5%	NA
Net income (loss)	2,006	(54)	2,060	NA	6,641	1,069	5,572	521%
Net income (loss) (% of sales)	13%	(1%)	14%	NA	15%	5%	10%	200%
Earnings per share (in Canadian dollars)								
Basic	0.0829				0.3066			
Diluted	0.0827				0.3062			
Weighted average number of common shares outstanding								
Basic	24,186,216				21,662,072			
Diluted	24,260,457				21,686,819			

Revenues

Revenues for the quarter and the nine months ended June 30, 2006 increased by \$8.6 million (or 125%) and \$21.7 million (or 103%), respectively, compared with the same periods last year. The significant increases are mainly due to the Liaoning Migao facility, which commenced production in December 2005 and attained full capacity by the end of March 2006, along with Guangdong Migao, which commenced production in December 2004. Revenue generated by Liaoning Migao for the quarter and the nine months ended June 30, 2006 were \$4.5 million and \$8.1 million, respectively.

Revenues for the quarter ended June 30, 2006 increased by \$0.33 million (or 2%) compared with the previous quarter ended March 31, 2006. The increased revenue is mainly due to Liaoning Migao's attaining full capacity in March 2006, contributing extra \$1 million revenue comparing to the previous quarter, offset by Guangdong Migao's lower revenue due to a scheduled maintenance for half of its facility for a three weeks period during the quarter.

The following is a summary of the Company's existing facilities and its production capacities.

	Core Product	Annual Capacity (tonnes)	By-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan					
- Phase I	Potassium Nitrate	20,000	Ammonium Chloride	11,200	December 2003
- Phase II	Potassium Nitrate	20,000	Ammonium Chloride	11,200	September 2004
Guangdong					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2004
Liaoning					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Total		120,000		118,400	

Note: "Annual Capacity" denotes the design capacities of the facilities. Actual productions have been exceeding design capacities by 5 to 10 percent annually.

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.

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 and nine months ended June 30, 2006 was \$0.1401 and \$0.1429 to 1 Chinese Renminbi, respectively. The average exchange rate for the quarter and nine months ended June 30, 2005 was \$0.1503 and \$0.1480 to 1 Chinese Renminbi, respectively. The average exchange rate for the previous quarter ended March 31, 2006 was \$0.1434 to 1 Chinese Renminbi.

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 is far from satiated.

Gross Profit

Gross profit for the quarter and nine months ended June 30, 2006 increased by \$2.6 million (or 499%) and \$7.8 million (or 332%), respectively, compared with the same periods last year. Gross margin as a percentage of sales for the quarter and nine months ended June 30, 2006 increased by 12% to 20% (from 8%) and by 13% to 24% (from 11%), respectively, compared with the same periods last year.

Increases in gross profit and gross margin are due to the combination of higher efficiency and increased selling prices relative to costs compared with the same periods last year.

Gross margin as a percentage of sales for the quarter ended June 30, 2006, however, decreased by 8% to 20% (from 28%) compared with the previous quarter ended March 31, 2006. The decrease in gross margin is mainly due to the relatively lower selling price of one of its by-products during the quarter ended June 30, 2006 compared to the quarter ended March 31, 2006. However, we continue to experience strong demand for all of the products, including the by-products in the market place. We believe the decrease in the selling price of the by-product is both temporary and cyclical in nature.

General and Administrative Expenditures

General and administrative expenditures for the quarter and nine months ended June 30, 2006 increased by \$0.2 million (or 59%) and \$0.5 million (or 71%), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and nine months ended June 30, 2006 decreased by 1% to 4% (from 5%) and unchanged at 3% compared with the same periods last year.

General and administrative expenditures for the quarter ended June 30, 2006 increased by \$0.18 million (or 49%) compared with the previous quarter ended March 31, 2006. The increase in general and administrative expenses is mainly due to the increased related costs of Liaoning Migao which attained full production capacity at the end of March 2006.

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 for the quarter and nine months ended June 30, 2006 decreased by \$0.4 million (or 16%) and increased by \$0.9 million (or 168%), respectively, compared with the same periods last year. Selling

expenditures as a percentage of sales for the quarter and nine months ended June 30, 2006 decreased by 2% to 1% (from 3%) and unchanged at 3% compared with the same periods last year.

Selling expenditures for the quarter ended June 30, 2006 decreased by \$0.58 million (or 75%) compared with the previous quarter ended March 31, 2006. The significant decrease in selling expenses is mainly due to the reversal of certain transportation costs incurred in the quarter March 31, 2006, as well as the relatively mature clientele for our existing products.

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

Earnings

Net income for the quarter and nine months ended June 30, 2006 increased by \$2 million and \$5.6 million (or 521%), respectively, compared with the same periods last year. Net income as a percentage of sales for the quarter and nine months ended June 30, 2006 increased by 14% to 13% (from -1%) and 10% to 15% (from 5%) compared with the same periods last year.

Net income for the quarter ended June 30, 2006 decreased by \$0.9 million (or 32%) compared with the previous quarter ended March 31, 2006. The decrease in net income can mainly be attributed to the following:

- Non-cash expenditure of stock-based compensation at \$0.12 million as a result of the recent public listing and granting of stock options to directors and officers.
- Additional head office expenditure due to recently completed public listing and private placement.
- Increase of general and administrative expenses relating to Liaoning Migao due to its completion of the ramp-up period.
- Guangdong facility underwent its scheduled annual maintenance during the quarter. As a result, production for half of its capacity was shut down for maintenance for a period of three weeks in the month of June 2006. Therefore, production is lower than the second quarter for this facility.
- While demands for all of the products continues to be strong, the pricing for one of the by-products is typically lower in the summer months, which resulted in lower overall profit margin compared with the second quarter.
- Higher average Canadian Dollar to Chinese Renminbi for the period resulted in \$0.0033 less for every Chinese Renminbi earned.

Expansion Projects

Guangdong Migao

For a budgeted capital cost of \$4 million, Guangdong Migao commenced the Phase II potassium sulphate project during the third quarter of fiscal 2006, which includes the following:

- To add 60,000 tonnes of potassium sulphate production. After completion, the potassium sulphate production capacity will reach 100,000 tonnes, with 120,000 tonnes of the by-product hydrochloric acid. This project is anticipated to be completed and put into production by the end of calendar 2006.

The increased expansion of production capacity from the originally anticipated addition of 40,000 tonnes of potassium sulphate production is due to the very strong demand for such product in the market place.

For a budgeted capital cost of \$8 million, Guangdong Migao is planning to commence construction of its Stage I sulphuric acid project in July 2006, which includes the following:

- Build a 100,000 tonnes sulphuric acid production unit of which 50,000 tonnes are projected for self-use, the balance 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 and the remainder can be sold back to the electrical network. This project is anticipated to be completed and put into production by the end of calendar 2007.

Stage II of the sulphuric acid project, which is to build an additional 100,000 tonnes production unit, will be further reviewed upon completion of the Stage I project based on market conditions at the time.

Sichuan Migao

For a budgeted cost of \$6 million, Sichuan Migao commenced its Phase III potassium nitrate project. The Phase III potassium nitrate project includes the following:

- To add 50,000 tonnes of potassium nitrate production. After completion, the potassium nitrate production capacity will reach 100,000 tonnes, with 56,000 tonnes of its by-product ammonium chloride. The first half of the construction is anticipated to be completed and put into operation in the last quarter of calendar 2006, and second half to be completed prior to the end of fiscal 2007.

Liaoning Migao

For a budgeted cost of \$3 million, Liaoning Migao will upgrade its existing facility to enable the granulation of potassium sulphate and purification of hydrochloric acid.

Granular fertilizer possesses the following advantageous attributes:

- better physical properties;
- remains free-flowing even after prolonged storage;
- better and easier transportability;
- more uniform distribution pattern when applied to soil; and
- facilitates mechanical application to soil.

During the last 20 years, the world fertilizer market has experienced a rapid growth in the use of granular fertilizers, one of the trends of the fertilizer industry worldwide, notably in urea, ammonium phosphate, potash

and compound fertilizer. In developed countries, such as the USA, granular potash fertilizer accounts for approximately 50% of the entire potash fertilizer production. In China, however, granular fertilizer is relatively new although demand is growing; hence this considerable gap between demand and supply in granular potash fertilizer market represents tremendous market potential.

Installing hydrochloric acid purification processes at the Liaoning Migao facility to grade the industrial product currently produced into food grade product will improve the Company's economic opportunity such that the hydrochloric acid may be used in food, medical, and other high-end areas. By accessing markets outside of our industrial grade customer base, we expect to realize increases to our selling price of our hydrochloric acid product.

The granular potassium sulphate and purification of hydrochloric acid project by Liaoning Migao will improve the product quality of our products and profit margin as well as diversify sales opportunity. After completion and review of operations, such practice may be similarly adopted by our other facilities in Guangdong Migao, Sichuan Migao, and future production sites.

Liquidity and Capital Resources

<i>(in thousands of Canadian dollars except for ratios)</i>	June 30, 2006	September 30, 2005
Current Ratio	3.57 : 1	2.04 : 1
Cash	8,240	2,456
Working Capital	23,367	5,942
Total Assets	53,413	27,959
Total Debt	9,077	21,377
Total Equity	44,336	6,582
Debt to Equity Ratio	0.20 : 1	3.25 : 1

Cash Position

Cash and cash equivalents totalled \$8.24 million as of June 30, 2006, representing an increase of \$5.8 million and \$5.6 million compared with the balances as of September 30, 2005 and March 31, 2006, respectively. This increase is a result of \$16.2 million of cash flow generated by private placement financing and \$1.5 million from related parties advances, offset by the \$1.46 million repayment of a bank loan, \$1.7 million invested in capital assets, construction of Sichuan and Guangdong Migao and payments for land use rights, and \$8.93 million for operations.

Migao has approximately \$1.4 million of land use rights payable. These payables may come due in the fourth quarter of fiscal 2006.

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

Working Capital

Working capital was \$23.37 million as of June 30, 2006, representing an increase of \$17.4 million and \$16.12 million compared with balances as of September 30, 2005 and March 31, 2006, respectively. This latter increase is primarily attributable to the \$4.9 million increase in accounts receivable, \$2.9 million increase in prepayments, \$5.5 million decrease in bank indebtedness, accounts payable and accrued liabilities, offset by \$2.2 million decrease in inventory, \$0.9 million increase in customer deposits and \$1.5 million increase in related party advances.

The increase in accounts receivable as of June 30, 2006 compared to March 31, 2006 is in line with management experience and historical trend during this period due to generally slower application of fertilizer products by our customers.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$13.25 million at June 30, 2006 compared with \$8.76 million and \$8.78 million as of September 30, 2005 and March 31, 2006, respectively.

Construction in progress was \$2.24 million at June 30, 2006 compared with \$2.7 million and \$5.45 million as of September 30, 2005 and March 31, 2006, respectively. The latter is mainly due to the transfer of \$4.2 million to plant and equipment attributed to Liaoning Migao.

Land use rights net of accumulated amortization remained at \$5.5 million at June 30, 2006. No new land use rights were acquired during the third quarter of fiscal 2006. On July 24, 2006, however, the Company obtained two of its five outstanding land use right certificates from the government, both expiring on July 20, 2055.

Contractual Obligation Summary

- Purchase contract for raw material in the amount of US\$2.02 million as of June 30, 2006, to be fulfilled within six months.

Capital Structure

The Company is authorized to issue an unlimited number of common shares and unlimited number of preference shares, each common share providing the holder with one vote. As of August 15, 2006, there were:

- 29,111,921 common shares outstanding.
- 1,165,000 stock option outstanding, with exercise price of \$2.85, and weighted average contractual life of 4.88 years. None of the stock options are exercisable as of August 15, 2006.
- 3,181,500 warrants outstanding, with exercise price of \$3.70, exercisable before May 18, 2008.

- 445,410 agent compensation options outstanding, with exercise price of \$2.85 per compensation unit. Each compensation unit consists of one common share of the Company and one-half warrant. Each whole warrant entitles the agent to purchase one common share at \$3.70 before May 18, 2008.

Off-Balance Sheet Arrangement

The Company 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 Migao including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

As of June 30, 2006, amount due to Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") was \$3,941,221. LYEDC and the Company are ultimately controlled by the same shareholder. The funds were advanced throughout the last three years in order to finance the operation of the Subsidiaries and head office operation up to the completion of the private placement financing on May 18, 2006.

Office rent in the amount of \$7,500 was paid during the quarter ended June 30, 2006 to a company controlled by certain directors of the Company.

Proposed Transactions

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.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's unaudited Consolidated Financial Statements for the three and nine month periods ended June 30, 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

The unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company 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 recently audited financial statements of HK Migao. 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 audited financial statements of HK Migao 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 is 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

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

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In the Management Information Circular of HK Migao dated April 10, 2006, it 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.