

Migao Corporation

Management Discussion and Analysis

Second Quarter, Fiscal 2007
Ended March 31, 2007

May 14, 2007

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 six months ended March 31, 2007. This discussion and analysis should be read in conjunction with the unaudited Interim Consolidated Financial Statements and related notes as at and for the period ended March 31, 2007 and the audited Consolidated Financial Statements and related notes as at and for the period ended September 30, 2006. 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 March 31, 2007, the Company had 35,476,120 common shares outstanding. At May 14, 2007, the Company has 36,019,726 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 May 14, 2007.

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 11.

Overview

Migao, through its wholly owned subsidiaries (referred herewith as “Sichuan Migao”, “Guangdong Migao”, “Liaoning Migao”, “Shanghai Migao” and “Changchun Migao”), owns land and/or 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 domestic markets in China. 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.

Notable Events

- On February 22, 2007 (the “Closing Date”), the Company completed a private placement financing for a gross amount of \$25 million of subscription receipts at a price of \$4.15 per unit, totalling 6,025,000 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 \$5.30, for a period of 24 months following the Closing Date.
- On May 10, 2007, the common shares of the Company were listed on the Toronto Stock Exchange under the stock symbol “MGO”, graduating from the TSX Venture Exchange.

Results of Operations

Consolidated Results

The following table sets out the Company's consolidated results for the quarter and six months ended March 31, 2007, compared with the same periods last year.

<i>In thousands of Canadian dollars (except for % figures)</i>	Q2 2007	Q2 2006	Increase (Decrease)	% Increase (Decrease)	YTD 2007	YTD 2006	Increase (Decrease)	% Increase (Decrease)
Sales	27,712	15,100	12,612	84%	49,443	27,489	21,954	80%
Gross profit	6,281	4,310	1,971	46%	10,954	7,012	3,942	56%
Gross profit (% of sales)	22.66%	28.54%	(5.88%)	(21%)	22.16%	25.51%	(3.35%)	(13%)
Selling expenses	1,335	771	564	73%	2,314	1,234	1,080	88%
Selling expenses (% of sales)	4.82%	5.10%	(0.28%)	(6%)	4.68%	4.49%	0.19%	4%
G & A	1,018	367	651	178%	1,764	770	994	129%
G & A (% of sales)	3.67%	2.43%	1.24%	51%	3.57%	2.80%	0.77%	27%
Professional	179	69	110	161%	391	220	171	78%
Professional (% of sales)	0.65%	0.45%	0.2%	42%	0.79%	0.80%	(0.01%)	(1%)
Stock-based compensation	245	-	245	NA	496	-	496	NA
Stock-based compensation (% of sales)	0.88%	-	0.88%	NA	1.00%	-	1.00%	NA
Other income	34	2	32	1590%	86	4	82	1821%
Other income (% of sales)	0.12%	0.01%	0.11%	821%	0.17%	0.02%	0.15%	968%
Income taxes	200	157	43	28%	328	157	171	109%
Income taxes (% of sales)	0.72%	1.04%	(0.32%)	(30%)	0.66%	0.57%	0.09%	16%
Effective tax rate (% of net income)	5.66%	5.05%	0.61%	12%	5.40%	3.27%	2.13%	65%
Net income (loss)	3,338	2,949	389	13%	5,747	4,635	1,112	24%
Net income (loss) (% of sales)	12.05%	19.53%	(7.48%)	(38%)	11.62%	16.86%	(5.24%)	(31%)
Earnings per share (in Canadian dollars)								
Basic	0.10				0.19			
Diluted	0.10				0.19			
Weighted average number of common shares outstanding								
Basic	31,859,414				30,491,712			
Diluted	32,726,894				30,875,196			

Revenues

Revenues for the quarter ended March 31, 2007 increased by \$6 million (or 28%) compared with the previous quarter ended December 31, 2006. The increased revenue is mainly due to stage one of Phase III of Sichuan Migao (20,000 tonnes), and stage one of Phase II of Guangdong Migao (40,000 tonnes) attaining full production capacity throughout the quarter. The completion of stage two of Phase II in Guangdong Migao added 20,000 tonnes capacity in January 2007 which also contributed to the increased revenue.

Revenues for the quarter and the six months ended March 31, 2007 increased by \$12.6 million (or 84%) and \$22 million (or 80%), respectively, compared with the same periods last year. The significant increases are mainly due to the expanded production capacities in all facilities. The run rate for the core products was at 200,000 tonnes as of March 31, 2007, compared with 120,000 tonnes as of March 31, 2006.

The following is a summary of the Company's facilities and production capacities as of March 31, 2007.

	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
- Phase III (Stage I)	Potassium Nitrate	20,000	Ammonium Chloride	11,200	November 2006
Guangdong					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2004
- Phase II (Stage I)	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	November 2006
- Phase II (Stage II)	Potassium Sulphate	20,000	Hydrochloric Acid	24,000	January 2007
Liaoning					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Total		200,000		201,600	

Note: "Annual Capacity" denotes the design capacities of the facilities. Actual production has exceeded 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 ended March 31, 2007 was \$0.1510 to 1 Chinese Renminbi. The average exchange rate for the quarter ended March 31, 2006 was \$0.1434 to 1 Chinese Renminbi. The average exchange rate for the previous quarter ended December 31, 2006 was \$0.1449 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 on a large scale, as the Chinese demand is far from satiated.

Gross Profit

Gross profit for the quarter ended March 31, 2007 increased by \$1.6 million (or 34%) compared with the previous quarter ended December 31, 2006. Gross margin as a percentage of sales for the quarter ended March 31, 2007 increased by 1.2% to 22.7% (from 21.5%) compared with the previous quarter ended December 31, 2006.

Gross profit for the quarter and six months ended March 31, 2007 increased by \$2 million (or 46%) and \$3.9 million (or 56%), respectively, compared with the same periods last year. Gross margin as a percentage of sales for the quarter and six months ended March 31, 2007 decreased by 5.8% to 22.7% (from 28.5%) and by 3.3% to 22.2% (from 25.5%), respectively, compared with the same periods last year.

Increases in gross profit are due to expanded capacity, while decreases in gross margin are mainly due to the lower selling prices on by-products compared with the same periods last year.

Selling Expenditures

Selling expenditures for the quarter ended March 31, 2007 increased by 0.4 million (or 36%) compared with the previous quarter ended December 31, 2006. Selling expenditures as a percentage of sales for the quarter ended March 31, 2007 increased slightly by 0.3% to 4.8% (from 4.5%) compared with the previous quarter ended December 31, 2006.

Selling expenditures for the quarter and six months ended March 31, 2007 increased by \$0.6 million (or 73%) and \$1.1 million (or 88%), respectively, compared with the same period last year. Selling expenditures as a percentage of sales for the quarter and six months ended March 31, 2007 decreased slightly by 0.3% to 4.8% (from 5.1%) and increased slightly by 0.2% to 4.7% (from 4.5%) compared with the same period last year.

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. In general, increases in selling expenditures were in-line with increases in revenues in various periods.

General and Administrative Expenditures

General and administrative expenditures for the quarter ended March 31, 2007 increased by \$0.3 million (or 37%) compared with the previous quarter ended December 31, 2006. General and administrative expenditures as a percentage of sales for the quarter ended March 31, 2007 increased slightly by 0.3% to 3.7% (from 3.4%) compared with the previous quarter ended December 31, 2006. The increase in general and administrative

expenses is mainly due to the increased public company related costs during the quarter compared with the previous quarter ended December 31, 2006.

General and administrative expenditures for the quarter and six months ended March 31, 2007 increased by \$0.7 million (or 178%) and \$1 million (or 129%), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and six months ended March 31, 2007 increased by 1.3% to 3.7% (from 2.4%) and by 0.8% to 3.6% (from 2.8%) compared with the same periods last year.

General and administrative expenditures include personnel costs for production, finance, human resources and management staff as well as facilities expenses, supplies and equipment depreciation.

Earnings

Net earnings for the quarter ended March 31, 2007 increased by \$0.9 million (or 39%) compared with the previous quarter ended December 31, 2006. Net earnings as a percentage of sales for the quarter ended March 31, 2007 increased by 1% to 12.1% (from 11.1%) compared with the previous quarter ended December 31, 2006. The significant increase in net earnings compared to the previous quarter is mainly due to the following: the attainment of full production for the entire quarter for the expanded production capacities which were in place in November 2006, and the completion of the 20,000 tonnes capacity (Stage II, Phase II) in Guangdong Migao in January 2007.

Net earnings for the quarter and six months periods ended March 31, 2007 increased by \$0.4 million (or 13%) and \$1.1 million (or 24%), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and six months ended March 31, 2007 decreased by 7.5% to 12.1% (from 19.5%) and 5.2% to 11.6% (from 16.9%), respectively, compared with the same periods last year.

Expansion Projects

Guangdong Migao

With capital costs of \$1.6 million, stage two of the Phase II potassium sulphate project was completed and put into production in January 2007, thereby adding an additional 20,000 tonnes of potassium sulphate production capacity. Therefore, the facility currently possesses an annual potassium sulphate production capacity of 100,000 tonnes and 120,000 tonnes of the associated by-product hydrochloric acid.

Sichuan Migao

Stage two of the Phase III potassium nitrate project, which will add an additional 20,000 tonnes of potassium nitrate capacity, is scheduled to be completed during the last quarter of fiscal 2007 (the three months ending September 30, 2007).

Shanghai Migao

On November 11, 2006, the Company announced that a potassium sulphate facility, with 40,000 tonnes of initial capacity, will be constructed in the city of Shanghai and is scheduled to be completed by the end of the calendar year 2007.

Changchun Migao

On February 27, 2007, the Company announced that a potassium sulphate facility, with 40,000 tonnes of initial capacity, will be constructed in the city of Changchun, province of Jilin and is scheduled to be completed by early part of the calendar year 2008. On April 17, 2007, the Company announced that the facility will be completed and put into production ahead of the original schedule by the end of calendar 2007.

Liquidity and Capital Resources

<i>(in thousands of Canadian dollars except for ratios)</i>	March 31, 2007	September 30, 2006
Current Ratio	5.10 : 1	2.89 : 1
Cash	25,568	16,316
Working Capital	41,034	19,362
Total Assets	89,799	57,087
Total Debt	10,014	10,228
Total Equity	79,784	46,859
Debt to Equity Ratio	0.13 : 1	0.22 : 1

Cash Position

Cash and cash equivalents totalled \$25.6 million as of March 31, 2007, representing an increase of \$9.3 million and \$17.8 million compared with the balances as of September 30, 2006 and December 31, 2006, respectively. The increase for the quarter ended March 31, 2007 is a result of \$23 million of cash flow generated by private placement financing, \$1 million from exercise of warrants, and \$3 million from operations, offset by \$4.9 million repayments of bank loans, \$2.2 million invested in capital assets for the construction of Sichuan, Guangdong, Shanghai and Changchun Migao and \$2.4 million payments for land use rights.

Migao has approximately \$2 million of land use rights payable. These payables may come due in the third quarter of fiscal 2007.

The Company believes that its current cash position is sufficient to meet the ongoing needs of the business. However, the Company may choose to access capital markets and/or bank financing for funding of future expansion and other opportunities.

Working Capital

Working capital was \$41 million as of March 31, 2007, representing an increase of \$21.7 million and \$24.8 million compared with balances as of September 30, 2006 and December 31, 2006, respectively. This latter increase is primarily attributable to the \$23 million from private placement financing completed on February 22, 2007, \$1.4 million increase in prepayments, \$6.6 million increase in inventory, \$4.2 million decrease in bank indebtedness, accounts payable and accrued liabilities and \$2.3 million decrease in customer deposits, offset by \$7.6 million decrease in accounts receivable and \$0.3 million increase in related party advances.

The substantial decrease in accounts receivable as of March 31, 2007 compared to December 31, 2006 is in line with management experience and historical trend during this period.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$23.4 million at March 31, 2007 compared with \$13.5 million and \$22.6 million as of September 30, 2006 and December 31, 2006, respectively.

Construction in progress was \$2.2 million at March 31, 2007 compared with \$6.2 million and \$1.3 million as of September 30, 2006 and December 31, 2006, respectively. The balance consists mainly of the construction costs attributed to Sichuan, Guangdong, Shanghai and Changchun Migao.

Land use rights net of accumulated amortization was \$13.1 million at March 31, 2007 compared with \$7.8 million and \$12.4 million as of September 30, 2006 and December 31, 2006. The increases are mainly due to the acquisitions of land use rights in Shanghai, Changchun and Sichuan Migao.

Contractual Obligations Summary

- Purchase contracts for raw materials and supplies in the amount of \$26.8 million exist as of March 31, 2007. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of \$0.96 million exist as of March 31, 2007. They were entered into in the normal course of business.

Capital Structure

The Company is authorized to issue an unlimited number of common shares, each common share providing the holder with one vote. As of May 14, 2007, there were:

- 36,019,726 common shares outstanding.
- 1,165,000 stock option outstanding, with exercise price of \$2.85, and weighted average contractual life of 4.13 years. None of the stock options are exercisable as of May 14, 2007.
- 2,528,869 warrants outstanding, with exercise price of \$3.70, exercisable before May 18, 2008.
- 3,012,500 warrants outstanding, with exercise price of \$5.30, exercisable before February 22, 2009.

- 291,961 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.
- 301,250 agent compensation options outstanding, with exercise price of \$4.15 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 \$5.30 before February 22, 2009.

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 March 31, 2007, amount due to Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”) was \$1,169,841. 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.

Proposed Transactions

Migao is not a party to any proposed transaction 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 six month periods ended March 31, 2007, and the audited Consolidated Financial Statements for the year ended September 30, 2006 and the notes thereto. Those Consolidated Financial Statements outline the accounting principles and policies used to prepare our financial statements. The critical accounting policies of the Company are outlined in our Fiscal 2006 MD&A and remain substantially unchanged. Accounting policies are critical if they rely on a substantial amount of judgment 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.

Accounting policy change

Effective October 1, 2006, the Company implemented the new CICA accounting sections: 3855 (Financial Instruments – Recognition and Measurement), 3865 (Hedges), and 1530 (Comprehensive Income). These new

accounting policy changes have been implemented prospectively with no restatement of comparative financial statements, except as noted below.

Comprehensive income includes net income and other comprehensive income. It is defined as the change in equity (net assets) of a company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during the period except those resulting from investments by owners and distributions to owners. The only item included in other comprehensive income is the foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded currency translation account on the consolidated balance sheets' shareholders' equity section has been eliminated and included as "accumulative other comprehensive income" in shareholders' equity. Furthermore, the gain (or loss) from translating the Company's self-sustaining foreign operations is now recorded as other comprehensive income. Prior years' financial statements have been restated to reflect this change. The Company's earnings per share presented on the consolidated statements of income is based upon its net income and not comprehensive income.

The adoption of sections 3855 and 3865 had no impact on the Company's financial statements.

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.