

Migao Corporation

Management’s Discussion and Analysis

Fiscal Year Ended September 30, 2008

December 3, 2008

The following is Management’s Discussion and Analysis (“MD&A”) of the financial condition of Migao Corporation (the “Company” or “Migao”) and its financial performance for the year ended September 30, 2008. This MD&A should be read in conjunction with the audited Consolidated Financial Statements and related notes as at and for the years ended September 30, 2008 and 2007. Reference should also be made to the Company’s filings, including the Company’s annual information form, with Canadian securities regulatory authorities which are available at www.sedar.com.

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure directly and through its audit committee comprised exclusively of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure.

All amounts are in Canadian dollars unless otherwise noted (tabular amounts are in thousands of Canadian dollars) and prepared in accordance with Canadian Generally Accepted Accounting Principles.

At September 30, 2008, the Company had 43,675,611 common shares outstanding. At December 3, 2008, the Company has 43,675,611 common shares outstanding.

Forward-Looking Information

The statements made in this MD&A that are not historical facts, particularly those in the “Outlook” section, and also in “Results of Operations – Gross Profits”, 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 herein under “Risk Factors” and in the Company’s other 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. Management undertakes no obligation 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 December 3, 2008.

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.

Overview

Migao, through its wholly-owned operating subsidiaries (referred to herein as “Sichuan Migao”, “Guangdong Migao”, “Liaoning Migao”, “Shanghai Migao”, “Changchun Migao”, “Tianjin Migao”, and “Zunyi Migao”), owns land use rights and/or operates fertilizer production plants in various strategic locations in the People’s Republic of China (the “PRC”) for the production and sale 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 region where transportation costs to the economically developed eastern and southern coastal regions are prohibitive. As a result 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. Management of Migao believe it is positioned to capitalize on the value added chemical fertilizer market in China.

In addition to measures based on Canadian Generally Accepted Accounting Principles (“GAAP”) in this MD&A, we use the term earnings before interest, taxes, depreciation and amortization (“EBITDA”). EBITDA is not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. In this MD&A, we may describe certain ‘income’ and ‘expense’ items as unusual or non-recurring. These terms are not defined by GAAP. Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

Highlights for the Year

Migao continues to execute on its strategic and operational initiatives, as highlighted in the year and shortly thereafter:

On October 27, 2008, the Company announced that a 100,000 tonne per year compound fertilizer facility is under construction at Sichuan Migao and will begin full production in January 2009. The new specialty fertilizer will combine the Company’s low-chloride potassium nitrate and/or potassium sulphate with other essential crop nutrients, as required, and is to be applied directly to tobacco crops. This new facility makes the Company the largest provider of specialty fertilizer to the tobacco industry in China. The Company plans to expand this line of business into other tobacco growing regions in China as profit margin from this business is expected to be attractive.

On September 22, 2008, the Company announced that Guangdong Migao had received purchase orders to supply 50,000 tonnes of potassium sulphate to three surrounding provinces. As a result of this order and other

commitments, all of the Company’s production is sold forward until March 2009. In addition, the Company announced that it had secured its long-term supply of potassium chloride from its Russian supplier (JSC Silvinit) by extending its supply agreement from the previous term of March 31, 2009 to December 31, 2009. The amount of potassium chloride secured under the amended agreement will fully satisfy Migao’s needs including new production capacity coming on line during the term of the agreement.

On September 16, 2008, the Company announced that effective September 22, 2008, the Company would be added to the list of companies comprising the S&P/TSX Small Cap Index (the “Index”). Criteria for inclusion in the Index include a market capitalization of \$100 million - \$1.5 billion and certain liquidity considerations. The Index membership is reviewed on an annual basis.

On May 29, 2008, the Company announced that Mr. S. Randall Smallbone had been appointed Chief Financial Officer effective July 1, 2008. Mr. Smallbone is a financial executive with more than 30 years of operational and public company board experience in diverse, global industries and will serve as a valuable addition to the Company’s senior management team.

On May 20, 2008, the Company announced that it had entered into an agreement to establish a joint venture (“JV”) with Sociedad Quimica y Minera de Chile S.A. (“SQM”), the world’s largest producer and distributor of potassium nitrate, for the production of potassium nitrate in China for domestic and international distribution. The JV will create a new enterprise jointly owned 50/50 by Migao and SQM. The agreement calls for the construction of a new 40,000 tonne per year potassium nitrate facility in China, which is projected to be operational in calendar 2009.

On May 6, 2008, the Company announced that a patent protecting the Company’s process for producing potassium nitrate had been approved. The national patent was granted to Sichuan Migao for its Double Decomposition Process, a method of producing potassium nitrate and ammonium chloride using an economically efficient and environmentally responsible process.

On April 24, 2008, the Company announced that it had negotiated prices for its potash-based products reflecting more than a 100% increase over the average selling price 2007.

On April 2, 2008, the Company announced the start of construction of a 120,000 tonne sulphuric acid production at Liaoning Migao. The Company believes this facility will ensure Migao is able to obtain reliable supplies of this key product while at the same time improving gross profit. Excess sulphuric acid production can be sold to the local market. Sulphuric acid production is scheduled to begin in the first half of calendar 2009.

On March 13, 2008, the Company completed a private placement of 3,593,750 common shares priced at \$8.00 per share for gross proceeds of \$28.8 million.

On February 15, 2008, the Company announced that it had entered into a long term potash supply contract with JSC Silvinit thereby securing sufficient supply to meet the Company’s long term needs (see above paragraph regarding contract extension).

Performance of Migao

Key performance indicators

The key performance indicators for Migao are revenue growth, gross profit, EBITDA, and net income.

The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependant on the Company being able to expand production capacity either at existing locations or by building facilities at new locations.

Based on historical performance, the Company is aiming to achieve gross profit in the range of 22% to 24% of revenue on an annual basis. The inputs into the Company’s production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its raw material costs, variable production costs, and customer contract negotiations.

Management believes that EBITDA is a measure of how efficiently and effectively the Company’s business is running. Net income is also viewed as an important measure for determining the value created for shareholders.

Measurement

Below under “Quarterly Results”, “Selected Annual Results”, and “Results of Operations” are three tables the Company uses to assess performance. The first table presents the Company’s consolidated results for the last eight quarters. The second table provides the Company’s consolidated results for the three years ended September 30, 2006, 2007, and 2008. The last table sets out the Company’s consolidated results for the quarter and year ended September 30, 2008, compared with the same periods last year.

Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	Fiscal 2008				Fiscal 2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	78,161	49,681	34,506	24,680	25,496	26,865	27,712	21,731
Gross profit	19,104	12,320	8,256	5,840	4,246	6,339	6,281	4,674
Gross profit (% of revenues)	24.4%	24.8%	23.9%	23.7%	16.7%	23.6%	22.7%	21.5%
Selected operating expenses:								
Selling	1,738	2,185	1,236	1,175	765	950	1,335	980
General and administrative	2,445	1,785	1,478	909	842	1,289	1,197	957
Stock-based compensation	593	804	264	227	226	186	245	251
Finance costs	208	84	88	81	288	-	-	-
Pre-operating costs	52	250	100	17	368	-	-	-
Other income	-	131	36	41	72	44	35	51
Gain on sale of non-operating subsidiary	-	99	-	-	-	-	-	-
Income taxes	1,168	675	561	371	(462)	791	200	128
Income taxes (% of revenues)	1.5%	1.4%	1.6%	1.5%	(1.8%)	2.9%	0.7%	0.6%
Effective tax rate (% of income before taxes)	8.3%	9.1%	10.9%	10.7%	(25.2%)	20.0%	5.7%	5.0%
Net income	12,870	6,767	4,565	3,100	2,292	3,167	3,338	2,409
Net income (% of revenues)	16.5%	13.6%	13.2%	12.6%	9.0%	11.8%	12.0%	11.1%
EBITDA	14,967	8,222	5,830	3,991	2,214	4,530	4,250	3,087
EBITDA (% of revenues)	19.1%	16.5%	16.9%	16.2%	8.7%	16.9%	15.3%	14.2%
Earnings per share (in \$):								
Basic	0.32	0.16	0.12	0.08	0.06	0.09	0.10	0.08
Diluted	0.31	0.15	0.11	0.08	0.06	0.08	0.10	0.08

Selected Annual Results

<i>In thousands of Canadian dollars except per share and percentage data</i>	Fiscal 2008	Fiscal 2007	Fiscal 2006
Revenues	187,028	101,804	58,349
Net income (loss)	27,303	11,206	8,598
Earnings per share			
Basic	0.67	0.33	0.37
Diluted	0.63	0.32	0.37
Total Assets	209,394	100,027	57,087
Total Long Term Liabilities	-	-	-
Dividends	-	-	-

Results of Operations

Consolidated Results

The following table sets out the Company’s consolidated results for the quarter year ended September 30, 2008, compared with the same periods last year.

<i>In thousands of Canadian dollars except per share and percentage data</i>	Q4 2008	Q4 2007	Increase (Decrease)	% Increase (Decrease)	YTD 2008	YTD 2007	Increase (Decrease)	% Increase (Decrease)
Revenues	78,161	25,496	52,665	206.6%	187,028	101,804	85,224	83.7%
Gross profit	19,104	4,246	14,858	349.9%	45,520	21,540	23,980	111.3%
Gross profit (% of revenues)	24.4%	16.7%	7.7%	46.1%	24.3%	21.2%	3.1%	14.6%
Selling expenses	1,738	765	973	127.2%	6,334	4,030	2,304	57.2%
Selling expenses (% of revenues)	2.2%	3.0%	(0.8%)	(26.7%)	3.4%	4.0%	(0.6%)	(15.0%)
G & A	2,445	842	1,603	190.4%	6,618	4,285	2,333	54.4%
G & A (% of revenues)	3.1%	3.3%	(0.2%)	(6.1%)	3.5%	4.2%	(0.7%)	(16.7%)
Stock-based compensation	593	226	367	162.4%	1,888	908	980	107.9%
Stock-based compensation (% of revenues)	0.8%	0.9%	(0.1%)	(11.1%)	1.0%	0.9%	0.1%	11.1%
Other income	-	72	(72)	(100%)	180	202	(22)	(10.9%)
Other income (% of revenues)	-	0.3%	(0.3%)	(100%)	0.1%	0.2%	(0.1%)	(50.0%)
Income taxes	1,168	(462)	1,630	352.8%	2,775	657	2,118	322.4%
Income taxes (% of revenues)	1.5%	(1.8%)	3.3%	183.3%	1.5%	0.6%	0.9%	150.0%
Effective tax rate (% of net income before taxes)	8.3%	(25.3%)	33.6%	132.8%	9.2%	5.5%	3.7%	67.3%
EBITDA	14,967	2,214	12,753	576.0%	33,010	14,081	18,929	134.4%
EBITDA (% of revenues)	19.1%	8.7%	10.4%	119.5%	17.6%	14.0%	3.6%	25.7%
Net income (loss)	12,870	2,292	10,578	461.5%	27,303	11,206	16,097	143.6%
Net income (loss) (% of revenues)	16.5%	9.0%	7.5%	83.3%	14.6%	11.0%	3.6%	32.7%
Earnings per share								
Basic	0.32	0.06			0.67	0.33		
Diluted	0.31	0.06			0.63	0.32		
Weighted average number of common shares outstanding								
Basic	40,813,968	33,479,987			40,658,089	33,479,987		
Diluted	41,947,715	34,898,956			43,099,724	35,074,923		

Revenues

Revenues were a record \$78.2 million and \$187.0 million for the quarter and year ended September 30, 2008, respectively, compared with \$25.5 million and \$101.8 million for the same periods last year, representing an increase of \$52.7 million (RMB 328.9 million) or 206.6% and \$85.2 million (RMB 607.4 million) or 83.7%, respectively. The significant increases are mainly due to the expanded production capacities through additional green field expansions, production improvements, and higher selling prices at certain facilities. The run rate for the core products was at 260,000 tonnes as of September 30, 2008, compared with 200,000 tonnes as of September 30, 2007.

Revenues for the quarter ended September 30, 2008 increased by \$28.5 million (RMB 171.2 million) or 57.3% to \$78.2 million (RMB 513.3 million) compared with the previous quarter ended June 30, 2008. The increased revenue is mainly due to the significant increase in newly negotiated selling prices for potash-based products.

Migao earns all of its revenues in Chinese Renminbi (“RMB”). Accordingly, reported revenues will fluctuate with changes in the exchange rate of RMB to Canadian dollars. The average exchange rate for the quarter and year ended September 30, 2008 were \$0.1523 and \$0.1425 to 1 RMB. The average exchange rate for the quarter and year ended September 30, 2007 were \$0.1382 and \$0.1443 to 1 RMB. The average exchange rate for the previous quarter ended June 30, 2008 was \$0.1452 to 1 RMB.

The following is a summary of the Company’s facilities and production capacities as of September 30, 2008.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
Guangdong	Potassium Sulphate	100,000	Hydrochloric Acid	120,000	December 2004
Liaoning	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Changchun	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2007
Total		260,000		260,800	

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.

Geographic Revenues

The Company earns virtually all of its revenues in the PRC, with only minor export sales. At the moment, there is no plan to expand export sales until fiscal 2010 at the earliest. Currently, domestic Chinese demand consumes all of Migao’s production output.

Gross Profit

Gross profit was \$19.1 million and \$45.5 million for the quarter and year ended September 30, 2008, respectively, compared to \$4.2 million and \$21.5 million for the same periods last year, representing an increase of \$14.9 million (or 349.9%) and \$24.0 million (or 111.3%), respectively. Gross margin as a percentage of sales for the quarter and year ended September 30, 2008 increased by 7.7% to 24.4% (from 16.7%) and by 3.1% to 24.3% (from 21.2%), respectively, compared with the same periods last year.

Gross profit for the quarter ended September 30, 2008 increased by \$6.8 million (or 55.1%) to \$19.1 million (from \$12.3 million) compared with the previous quarter ended June 30, 2008. Gross margin as a percentage of sales for the quarter ended September 30, 2008 decreased by 0.4% to 24.4% (from 24.8%) compared with the previous quarter ended June 30, 2008.

Increases in gross profit and gross margin were due to expanded capacity, timely raw material purchases, and increased selling prices of finished goods as a result of strong customer relations and demand.

The Company expects gross profit margins on an annual basis to be within its targeted range of between 22% and 24% of revenues. In fiscal 2008, the Company’s gross margin of 24.3% was in excess of this range as a result of timely strategic raw material purchases.

Selling Expenditures

Selling expenditures for the quarter and year ended September 30, 2008 increased by \$1.0 million (or 127.2%) to \$1.7 million (from \$0.8 million) and \$2.3 million (or 57.2%) to \$6.3 million (from \$4.0 million), respectively, compared with the same periods last year. Selling expenditures as a percentage of sales for the quarter and year ended September 30, 2008 decreased by 0.8% to 2.2% (from 3.0%) and 0.6% to 3.4% (from 4.0%) compared with the same periods last year.

Selling expenditures for the quarter ended September 30, 2008 decreased by \$0.5 million (or 20.4%) to \$1.7 million (from \$2.2 million) compared with the previous quarter ended June 30, 2008. Selling expenditures as a percentage of sales for the quarter ended September 30, 2008 decreased by 2.2% to 2.2% (from 4.4%) compared with the previous quarter ended June 30, 2008.

Selling expenditures include transportation and related costs incurred for delivery of goods to customers by the sales department. In general, increases in selling expenditures were in line with increases in revenues in the relevant periods.

General and Administrative Expenditures

General and administrative expenditures for the quarter and year ended September 30, 2008 increased by \$1.6 million (or 190.4%) to \$2.4 million (from \$0.8 million) and \$2.3 million (or 54.4%) to \$6.6 million (from \$4.3 million), respectively, compared with the same periods last year. General and administrative expenditures as a

percentage of sales for the quarter and year ended September 30, 2008 decreased by 0.2% to 3.1% (from 3.3%) and 0.7% to 3.5% (from 4.2%), respectively, compared with the same periods last year.

General and administrative expenditures for the quarter ended September 30, 2008 increased by \$0.6 million (or 37.0%) to \$2.4 million (from \$1.8 million) compared with the previous quarter ended June 30, 2008. General and administrative expenditures as a percentage of sales for the quarter ended September 30, 2008 decreased by 0.5% to 3.1% (from 3.6%) compared with the previous quarter ended June 30, 2008.

General and administrative expenditures include production, finance, human resources and management staff as well as facilities expenses, supplies and equipment depreciation. It also includes corporate level expenses such as legal, accounting, auditing, consulting and directors’ fees. Corporate finance department costs increased as a result of increased staff and the costs associated with a change of the Chief Financial Officer during the year. The majority of these costs are, for the most part, fixed and therefore fluctuate to a much lesser extent in relation to revenues.

Earnings

Net earnings for the quarter and year ended September 30, 2008 increased by \$10.6 million (or 461.5%) to \$12.9 million (from \$2.3 million) and \$16.1 million (or 143.6%) to \$27.3 million (from \$11.2 million), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and year ended September 30, 2008 increased by 7.5% to 16.5% (from 9.0%) and by 3.6% to 14.6% (from 11.0%), respectively, compared with the same periods last year.

Net earnings for the quarter ended September 30, 2008 increased by \$6.1 million (or 90.2%) to \$12.9 million (from \$6.8 million) compared with the previous quarter ended June 30, 2008. Net earnings as a percentage of sales for the quarter ended September 30, 2008 increased by 2.9% to 16.5% (from 13.6%) compared with the previous quarter ended June 30, 2008.

Increases in net earnings were due to expanded production capacity, production improvements, and significant increase in selling prices of finished goods.

Earnings per Share

Earnings per share were \$0.32 (\$0.31 fully diluted) and \$0.67 (\$0.63 fully diluted) for the quarter and year ended September 30, 2008, respectively, compared with \$0.06 (\$0.06 fully diluted) and \$0.33 (\$0.32 fully diluted) for the same periods last year, representing an increase of \$0.26 (or 433.3%) and \$0.34 (or 103.0%), respectively.

Earnings per share for the quarter ended September 30, 2008 increased by \$0.16 (or 100.0%) to \$0.32 (from \$0.16) compared with the previous quarter ended June 30, 2008.

Increases in earnings per share were due to expanded capacity and higher selling prices of finished goods.

During the year, 515,000 options were issued to directors, an employee, and officers of the Company. The total stock-based compensation expense for the quarter and year ended September 30, 2008 were \$0.6 million and \$1.9 million, respectively, resulting in a decrease of \$0.01 (\$0.01 fully diluted) and \$0.05 (\$0.04 fully diluted) on earnings per share.

EBITDA

EBITDA for the quarter and year ended September 30, 2008 increased by \$12.8 million (or 576.0%) to \$15.0 million (from \$2.2 million) and \$18.9 million (or 134.4%) to \$33.0 million (from \$14.1 million), respectively, compared with the same periods last year. EBITDA as a percentage of sales for the quarter and year ended September 30, 2008 increased by 10.4% to 19.1% (from 8.7%) and 3.6% to 17.6% (from 14.0%), respectively, compared with the same periods last year.

EBITDA for the quarter ended September 30, 2008 increased by \$6.8 million (or 82.0%) to \$15.0 million (from \$8.2 million) compared with the previous quarter ended June 30, 2008. EBITDA as a percentage of sales for the quarter ended September 30, 2008 increased by 2.6% to 19.1% (from 16.5%) compared with the previous quarter ended June 30, 2008. EBITDA was also impacted by the increased stock-based compensation expense.

Increases in EBITDA were due to capacity expansions and increasing selling prices for potash-based products.

Income Tax Rates

Income tax is levied on a calendar year basis separately for each subsidiary of the Company in accordance with the tax regulations of the PRC. Each of the Company’s operating subsidiaries has been and will be enjoying the “Exempt Two, Reduced Three” income tax policy for being Foreign Invested Enterprise (“FIE”), and is income tax exempt for the first two profitable years and at a reduced rate (50% of normal State level income tax plus local tax) for the next three profitable years.

More specifically, Sichuan Migao was exempt from income tax for the calendar years 2004 and 2005, and started to pay a combined 7.5% income tax (reduced from the normal 15%) from the beginning of calendar 2006 until the end of calendar 2008. Beginning calendar 2009, it will start to pay the normal combined income tax rate of 18%.

Guangdong Migao was exempt from income tax for the calendar years 2005 and 2006, and started to pay a combined 12% income tax (reduced from the normal 24%) from the beginning of calendar 2007 until the end of calendar 2009. Beginning calendar 2010, it will start to pay the normal combined income tax rate of 25%.

Liaoning Migao is exempt from income tax for the calendar years 2006 and 2007, and will start to pay a combined 12.5% income tax (reduced from the normal 25%) from the beginning of calendar 2008 until the end of calendar 2010. Beginning calendar 2011, it will start to pay the normal combined income tax rate of 25%.

Changchun Migao is expected to receive full exemptions from income tax for the calendar years 2008 and 2009, and start to pay a combined 12.5% income tax (reduced from the normal 25%) from the beginning of 2010 through 2012. Beginning calendar 2013, it will start to pay the normal combined income tax rate of 25%.

The National People’s Congress of China approved legislation relating to tax reforms on March 16, 2007. As of January 1, 2008, the tax incentives for FIE’s were removed. The State level income tax rate reduced to 25% from 30%. Each of the four operating subsidiaries of the Company will enjoy the favourable income tax policy as summarized above with new State level income tax rate applicable once coming out of its respective favourable income tax policy period. It is management’s belief that out of the three subsidiaries currently under construction (Shanghai Migao, Tianjin Migao and Zunyi Migao), only Shanghai Migao will enjoy a similar tax policy as the four operational subsidiaries. Tianjin Migao and Zunyi Migao will not be eligible to enjoy the favourable income tax policy as they were both incorporated after March 16, 2007.

Tax losses within the Canadian corporate office are not currently tax benefited. The Company, along with its tax advisors, are developing a tax plan that, if approved by the various tax authorities, could allow the Company to benefit any such tax losses.

Liquidity and Capital Resources

(in thousands of Canadian dollars except for ratios)

September 30, 2008 **September 30, 2007**

	September 30, 2008	September 30, 2007
Current Ratio	3.49 : 1	3.03 : 1
Cash	16,850	17,453
Working Capital	102,208	36,668
Total Assets	209,394	100,027
Total Debt	41,016	18,032
Total Equity	168,378	81,995
Debt to Equity Ratio	0.24 : 1	0.22 : 1

Cash Position

Cash and cash equivalents totalled \$16.9 million as of September 30, 2008, representing a decrease of \$0.6 million and \$5.7million compared with the balances as of September 30, 2007 and June 30, 2008, respectively. The decrease for the quarter ended September 30, 2008 is a result of \$8.5 million invested in capital assets mainly for the expansion of Sichuan Migao, Guangdong Migao and Liaoning Migao, and \$1.1 million foreign exchange loss, offset by \$0.8 million cash inflow from operations and \$3.1 million net proceeds from bank loans.

At September 30, 2008, the Company had short-term bank loans outstanding totalling \$13.9 million for working capital purposes. The loans are secured by certain land use rights and buildings and the total carrying value of the security on the loans is \$5.1 million.

Migao has approximately \$4.1 million of land use rights payable.

The Company believes that its current cash position, working capital and cash flow is sufficient to meet the current ongoing needs of the business, which includes budgeted production expansion activities. However, the Company may choose to access capital markets and/or bank financing for funding of future expansion, strategic raw material forward contract purchases, and other opportunities.

Working Capital

Working capital was \$102.7 million as of September 30, 2008, representing an increase of \$65.5 million and \$10.1 million compared with balances as of September 30, 2007 and June 30, 2008, respectively. This latter increase is primarily attributable to \$35.5 million increase in inventory, \$4.9 million decrease in accounts payable and accrued liabilities, and offset by \$5.7 million decrease in cash and cash equivalents, \$11.8 million decrease in accounts receivable, \$0.3 million decrease in prepayments, deposits and other receivables, \$3.5 million increase in bank loans, \$8.4 million increase in customer deposits, \$0.4 million increase in net future income tax liabilities, and \$0.2 million increase in net income taxes payable.

At the end of the quarter, the Company had \$66.3 million (86,908 tonnes) of potassium chloride inventory on hand with average delivered price of \$713 per tonne. Depending on the facility, the Company’s goal is to maintain at least sufficient raw material inventory at its warehouses.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$34.3 million at September 30, 2008 compared with \$20.5 million and \$31.8 million as of September 30, 2007 and June 30, 2008, respectively.

PRC regulations allow tax credits to be applied for up to 40% of expenditures on purchases of domestic made equipment. Once approved, such credits can be utilized against income taxes to be levied in future years. During the year ended September 30, 2008, Guangdong and Sichuan Migao were approved by local tax authority for tax credits totalling \$0.3 million (RMB 1.8 million) and \$0.1 million (RMB 0.7 million), respectively, on purchases of domestic equipment. Changchun Migao was approved by the local tax authorities for value-added tax refund on purchases of domestic equipment of \$0.3 million (RMB 2.2 million). These credits and value-added tax refunds were recorded as a reduction of the cost of the related equipment and tax credits will be applied against profit taxes levied to subsidiaries.

Construction in progress was \$10.3 million at September 30, 2008, compared with \$6.0 million and \$5.9 million as of September 30, 2007 and June 30, 2008, respectively. These balances consist mainly of the construction costs attributable to expenses at Sichuan Migao, Guangdong Migao, Liaoning Migao and Shanghai Migao.

Land use rights net of accumulated amortization was \$21.1 million at September 30, 2008 compared with \$18.4 million and \$19.4 million as of September 30, 2007 and June 30, 2008, respectively.

Contractual Obligation Summary

- Purchase contracts for raw materials and supplies in the amount of approximately \$23.5 million exist as of September 30, 2008. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$10.4 million exist as of September 30, 2008. They were entered into in the normal course of business.

The following table summarizes our contractual obligations as at September 30, 2008, and the effect such obligations are expected to have on our liquidity and cash flows in future years. The table excludes amounts already recorded on the consolidated balance sheet as current liabilities and certain other purchase obligations discussed above.

	2009	2010	2011	2012 and thereafter
Operating lease	\$ 71	\$ 72	\$ 73	NIL

Report on Controls

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at September 30, 2008 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Internal Control over Financial Reporting

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has engaged independent external consultants to evaluate the design of the Company’s internal controls and procedures over financial reporting as at September 30, 2008, and believes the design to be sufficient and appropriate to provide such reasonable assurance.

The consultants have made recommendations for improvement in certain aspects of the Company’s system of internal controls, including formalizing approval and review processes by using checklists and initialing source documents, and performing reconciliations and other accounting worksheets on a more consistent basis.

The Company has begun the process of hiring additional qualified personnel to assist in the implementation of the consultants’ recommendations, and during the first quarter hired an additional designated accountant at the corporate head office into the role of Corporate Controller.

Other control factors that readers should be aware of include the fact that the Company maintains a lean financial department in which finance staff are cross-trained to handle non-compatible functions in case of emergency, illness, staff turnover or other situations. This cross-training could result in a lack of segregation of duties. Management mitigates this risk by tracking when incompatible functions are performed and providing additional review and oversight at such times. Despite management’s best efforts, there can be no assurance that the risk of material misstatement occurring during such periods can be reduced. Also, the Company does not have a significant number of staff that possess an understanding of Canadian GAAP given that the Company operates primarily in the PRC, and PRC accounting follows policies are prescribed and required by the PRC tax authorities. The Company is reviewing the organizational structure of the accounting group to strengthen its resources to reflect the Company’s growth.

The Company is also required to disclose any change in internal controls that has materially affected, or is reasonably likely to materially affect, its controls over financial reporting. At the beginning of the third quarter, the Company reported that its Chief Financial Officer (“CFO”) had resigned and that an interim CFO had been appointed while the search for a new CFO was being conducted. Towards the end of the third quarter, the Company announced that a new CFO had been appointed effective July 1, 2008. Whenever there is a change in senior financial personnel, there can be no assurance that internal controls and procedures previously established will continue to function as designed and intended.

It should be noted that while the officers of the Company have certified the Company’s Annual Filings, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or implemented, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

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 December 3, 2008, there were:

- 43,675,611 common shares outstanding.
- 1,385,000 stock options outstanding, with exercise prices of between \$2.85 to \$9.93, and weighted average remaining life of 3.47 years. 471,666 of these stock options are exercisable as of December 3, 2008.
- 2,603,300 warrants outstanding, with exercise price of \$5.30, exercisable before February 22, 2009.

- 120,500 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 \$4.15 before February 22, 2009.

Off-Balance Sheet Arrangements

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 September 30, 2008, amount due from Migao New Energy (Sichuan) Co. Ltd. (“MNEC”) was \$36,394. MNEC is controlled by an officer and director of the Company. The amounts are for land evaluation and business registration fees paid on behalf of MNEC. In addition, during the year, the Company prepaid \$297,000 of import agency fee to Beijing Wei De Sen, a company controlled by an officer and director of Migao. These transactions were in the normal course of business and were measured at the exchange amounts, which are the amounts agreed upon by the parties. During the year, the Company paid or accrued service fees of \$Nil for services performed by Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”). LYEDC is controlled by an officer and director of the Company. Because of the difficulty in determining the fair market value, the values of these contributed services were not recognized in the financial statements. Lastly, LYEDC has provided corporate guarantees on \$6,192,000 of the Company’s short-term bank loans outstanding as of September 30, 2008.

Proposed Transactions

Migao is not a party to any proposed transaction or proposed asset or business acquisition or disposition, with the exception of the expansion plans described below, that may have an effect on the financial condition, results of operations or cash flows.

Outlook

Based on market information and estimates of Chinese speciality potash fertilizer companies, management believes Migao is positioned to become the leading producer of specialty potash fertilizer in the Chinese market. As China's citizens continue to benefit from strong economic growth, demand for improved crop yield, higher quality food and increased variety is fuelling the growth of the fertilizer market in China. The Company’s specialty fertilizers increased yield, enhance the quality of the crops they are applied to, and provide a higher return to farmers, allowing the Company to continue experiencing high demand for its potash-based products in the PRC.

Global demand and controlled supply for potassium chloride (“MOP”) has resulted in significant increases in the Company’s raw material costs. China’s government has responded to increased fertilizer costs by announcing and implementing several policies including those affecting fertilizer exports from China and selling prices of MOP and compound fertilizers within China. The policies are an effort to ensure adequate domestic supply of fertilizer and food, and to the extent possible, moderate upswings in food prices. No policies have been announced or implemented to restrict the selling price of specialty potash fertilizers within China. During the year, the Company has negotiated prices for its potash-based products reflecting more than a 100% increase over the average selling price in 2007. The new prices are now in effect and had a positive impact on the financial results of the current year.

To accelerate revenue growth, the Company has undertaken the following projects to expand production capacity either at existing locations or by building facilities at new locations:

Sichuan Migao

Sichuan Migao is currently operating at full production capacity of 80,000 tonnes of potassium nitrate per year. All of the production from the 80,000 tonne per year potassium nitrate facility has been sold to the end of the second quarter of fiscal 2009. During the year, the facility added the capability to produce potassium nitrate in an upgraded form. The upgrade was completed in September and production began in October 2008. In addition, a 100,000 tonne per year compound fertilizer facility is under construction and will begin full production in January 2009. The upgraded potassium nitrate and the specialty compound fertilizer facility allow the Company to increase its competitive advantage.

Guangdong Migao

Construction of an additional 60,000 tonnes of annual potassium sulphate capacity is completed and production began in November 2008. Both the production schedule and the construction costs were in line with the Company’s expectations. The expanded production capacity brings the total annual production capacity of the Guangdong Migao facility to 160,000 tonnes of potassium sulphate.

Changchun Migao

A new potassium sulphate facility, with 40,000 tonnes of initial capacity, was constructed in the city of Changchun, province of Jilin. The facility was completed on October 18, 2007 and production began on December 21, 2007. The project was on budget and completed ahead of schedule. The facility has been running at full production since the beginning of calendar 2008.

Liaoning Migao

On April 2, 2008, the Company announced plans to build a 120,000 tonne per annum sulphuric acid production facility. Construction is estimated to be completed by the first half of calendar 2009. Sulphuric

acid from this facility will be consumed by Liaoning Migao and nearby Changchun Migao for the production of potassium sulphate.

Shanghai Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity in Shanghai is expected to be completed by the end of calendar 2009. Delays at the Shanghai construction site are a result of delays in receiving necessary approvals from Chinese government officials and resources which are being allocated to local prioritized government construction projects. These approvals are expected to be obtained by December 2008, allowing for the completion of construction in calendar 2009.

Tianjin Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity in the city of Tianjin is scheduled to be completed by the end of calendar 2009.

Zunyi Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity in the city of Zunyi is scheduled to be completed by the end of calendar 2009, but may be postponed until the first half of calendar 2010. A road commissioned by government authorities is currently behind its scheduled completion.

Joint Venture with SQM

A potassium nitrate facility, jointly owned 50/50 by the Company and Chile-based SQM, with 40,000 tonnes of initial annual capacity, is scheduled to be completed in calendar 2009.

Capital Expenditure Summary

For the quarter and year ended September 30, 2008, the total capital expenditure for all of the expansion projects noted above was \$5.6 million and \$11.7 million, respectively. For the year ended September 30, 2009, the capital expenditure is budgeted up to approximately \$50 million.

The following is a summary of the Company’s facilities and expected production capacities as of December 31, 2008.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
Guangdong	Potassium Sulphate	160,000	Hydrochloric Acid	120,000	December 2004
Liaoning	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Changchun	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2007
Total		320,000		260,800	

It is anticipated that annual revenues for fiscal 2009 will be in the range of \$340 million to \$370 million based on the Company’s current calendar year production capacity, current pricing and prevailing foreign exchange rate.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the year ended September 30, 2008 and the 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 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.

Basis of presentation

The consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian GAAP and include the accounts of the Company and its subsidiaries in the PRC.

Cash equivalents

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	-	10 to 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 are the terms of the land use rights 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 substantively 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.

Income per share

Basic income per share is computed using the weighted average number of common shares outstanding during the year. Diluted income per share is computed giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method, except when their effect would be anti-dilutive. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

Revenue recognition

Revenue is recognized when goods are shipped and all significant risks and rewards of ownership are passed to the customer with collection of revenue reasonably assured. Payments received in advance for orders that do not yet qualify for recognition under the Company’s policies are recorded as customer deposits.

Pre-operating costs

All expenditures incurred prior to the commencement of commercial operations are expensed.

Foreign exchange

The Company's functional currency is the Canadian dollar and the Subsidiaries’ functional currency is the Chinese Renminbi ("RMB"). The accounts of the Subsidiaries 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 average rate of exchange for the period. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as other comprehensive income.

Financial Instruments

The Company has classified its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable, prepayments, deposits and other receivables, and due for related party are classified as loans and receivables, which are measured at amortized cost. Payables, accruals, and due to related party are classified as other financial liabilities, which are measured at amortized cost. Bank loans are classified as loans and are measured at amortized cost.

Measurement uncertainty

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of plant and equipment, intangible assets, valuation allowances for receivables and inventories, and future income taxes. Actual results could differ from those estimates.

The Black-Scholes option valuation model, used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company’s stock options granted during the year.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Accounting policy changes including initial adoption

Effective October 1, 2007, the Company implemented the new CICA accounting Section 3862 (Financial Instruments – Disclosures) and Section 3863 (Financial Instruments – Presentation). These standards provide additional guidance on disclosing risks related to recognized financial instruments and how those risks are managed. The Company also implemented Section 1535 (Capital Disclosures), which provides guidance for disclosing information about an entity’s capital and how it manages its capital.

These new accounting policy changes have been implemented prospectively and the adoption of these standards did not have a significant impact on the Company’s consolidated financial statements.

Recent accounting pronouncements

In June 2007, the Canadian Institute of Chartered Accountants (“CICA”) released new Handbook Section 3031 - Inventories, replacing Section 3030, effective for annual and interim periods for fiscal years beginning on or after January 1, 2008. This Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The impact of this new handbook section on the consolidated financial statements cannot be determined until the transactions occur.

The CICA issued the new Handbook Section 3064 - Goodwill and intangible assets, which replaces Section 3062 - Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is already expensing its pre-operating cost and the impact of the other parts of this new handbook section on the consolidated financial statements cannot be determined until the transactions occur.

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2012. While the Company has begun assessing and reviewing the impact of IFRS, and engaged in professional development for its adoption in 2011, the financial reporting impact of the transition to IFRS

cannot be reasonably estimated at this time.

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 following are certain risk factors inherent in the Company’s business and an investment in shares of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, liquidity and operating results of the Company could be materially adversely affected.

Company Risk Factors

Execution of the Business Plan

Although management of the Company has developed a business plan, there can be no assurance that the business plan will succeed in whole or in part.

The success of the Company’s expansion strategy will depend on a number of factors. There can be no assurance that the Company will be able to achieve its planned growth. There can be no assurance that the Company’s expansion strategy will be successful, that modifications to its strategy will not be required or that the Company will be able to enhance profitability. In addition, such growth could place a significant strain on the Company’s management, operational, financial and other resources. The Company’s ability to manage its growth effectively will require it to develop its management information systems capabilities and improve its operational and financial systems. Moreover, the Company will need to train, motivate and manage its employees and attract senior managers and technical professionals. Any failure to expand these areas and implement and improve such systems, procedures, and controls in an efficient manner and to train, motivate and manage its employees and attract senior managers and technical professionals at a pace consistent with the Company’s business could have a material adverse effect on the Company’s business, financial condition and operating results.

The Company has targeted the potash chemical fertilizer market in China as a focus for its business. There can be no assurance that this market will continue to develop and, given the Company’s limited experience and operating history in this market, there is no assurance that the Company’s investment and efforts in this market will be successful, which may adversely affect the Company’s business, financial condition and operating results.

Dependence on Key Personnel

Due to the specialized and sophisticated nature of the Company’s business, the Company is highly dependent on the continued service of, and on its ability to attract and retain, qualified technical, marketing and managerial personnel, particularly highly skilled engineers involved in the development of new products and processes and test technicians involved in the quality of existing products. Due to the relatively small size of the Company, the loss of any of these persons or the Company’s inability to attract and retain additional highly skilled employees may adversely affect its business operations, financial condition and operating results. The Company does not currently carry any keyman life insurance on any of its executives.

Personnel matters are a particular concern in China for a number of reasons. First, intellectual property rights are not as well protected or highly valued in China as in certain other countries, and it is not uncommon for employees to take trade secrets and confidential information with them to new employers. This could have a significant negative impact on the Company’s competitiveness. Second, when senior managers quit or are terminated, it is not uncommon for the employees they supervised to leave with them, taking significant institutional knowledge. Finally, with the growth of China’s economy has come newfound mobility for employees such that many employees change jobs on a regular basis. The Company expects that it will need to provide incentives to retain its key personnel and such incentives could decrease its profitability, and affect its financial condition and operating results.

Key Relationships

To date, the success of Migao has been, in part, dependent on personal and corporate relationships with suppliers, customers and certain government officials. The alteration or termination of these relationships could have a substantial impact on the future success of the Company and may adversely affect the Company’s business, financial condition and operating results.

Dependence on Key Customers

For fiscal 2008, one customer comprised 36% of revenue for Migao. At September 30, 2008, the same customer represented 56% of total accounts receivable. There can be no assurance that Migao will be able to retain its relationship with this customer or other key customers, and there can be no assurance that such customers will continue to purchase products from Migao in the future. Any negative change involving any of Migao’s largest customers, including but not limited to any such customer’s financial condition or desire to continue purchasing Migao’s products, could result in a significant reduction in business that could have a material adverse effect on the Company’s business, financial condition and operating results.

Competition

The Company expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and effecting business acquisitions directly or through affiliates. Many of these competitors possess greater

financial, technical, personnel and other resources than the Company, and there can be no assurance that the Company will have the ability to compete successfully.

Competitors may introduce technological innovation in any of the Company’s businesses, resulting in increased competitive pressures. The Company’s financial resources will be relatively limited when contrasted with those of many of their competitors. Although the Company’s projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of the Company. China can be a fiercely competitive market and small price or quality differentials between otherwise competitive goods and services can make an enormous difference to the consumer.

Market Factors and Volatility of Commodity Prices

Various commodity raw materials are used in the products manufactured by Migao. Commodity prices are subject to volatile price changes resulting from a variety of factors including international economic trends, global and regional demand, interest rates and global and regional consumption patterns. Accordingly, the Company is exposed to market risk from fluctuating market prices of certain commodity raw materials.

There is also a risk that market prices of other inputs required for the Company’s business, such as electricity and natural gas, may fluctuate, exposing the Company to market risk. In addition, if temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors require the Company to secure its raw materials or other inputs from other sources than its current suppliers, there can be no assurance that the Company will be able to do so on terms as favourable as its current terms or at all.

The Company’s financial performance is also linked to the selling prices of its products. Historically, prices for fertilizer products have been volatile. The price at which the Company sells its fertilizer products and other products could fall or fluctuate unpredictably in the event of changes in industry supply and demand conditions. The Company is not able to predict future market conditions and selling prices of its products with any certainty.

Any price volatility in raw materials, other inputs or in the Company’s products may have a material adverse effect on the Company’s business, operating results, cash flow and the Company’s ability to satisfy its debt obligations and capital expenditure requirements. There is a potential risk that the Chinese government may impose price controls on the Company’s products which could have a material adverse effect on the Company’s business, financial condition and results of operations.

Environmental Risks and Hazards

The Company’s operations are subject to various environmental laws which regulate matters such as health, safety, treatment of waste and land use. Failure to comply with applicable laws, regulations, and licensing requirements may result in enforcement actions thereunder. Penalties could include suspension or revocation of necessary licenses or permits, civil liability or the imposition of fines. The cost of compliance, remediation or liability could materially affect future operating results. Furthermore, the operational or financial impact of

new or amended laws or regulations cannot be predicted and could have a material adverse impact on the Company’s business, financial condition and operating results.

Operating Risks

The majority of the Company’s plants are in the early stages of development and have short operating histories, if any. There is a risk that the plants may not be or continue to be profitable or successful. There can be no assurance that the additional plants will commence commercial operation on schedule or at all, or that the plants will operate at planned production capacity. The delay or cancellation of any of planned plant expansions may affect the Company’s ability to satisfy customer orders.

There are also many risks associated with the operating facilities, including the ability to secure raw materials and components, utility prices, the failure or substandard performance of equipment, hiring and maintaining a productive and reliable workforce, labour disputes, natural disasters, suspension of operations and compliance with existing and new governmental statutes, regulations, and policies. The occurrence of material operational problems, including but not limited to any of the events described above, could have a material adverse effect on the Company’s business, financial condition and operating results.

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers, including third party distributors, of the distinctive characteristics and benefits of Migao’s products and services. The Company’s long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. The Company will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Company will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

To the extent that customers delay, reduce, or cancel orders or are unable or refuse to pay for products and services purchased in a timely fashion or at all, the Company’s business, financial condition and operating results could be adversely affected.

Proprietary Rights

Proprietary protection of Migao’s processes, apparatuses and other technology is important to the business. Consequently, the Company relies on judicial enforcement for protection of its patents. There can be no assurance that any of the Company’s patents will not be challenged, invalidated or circumvented. Furthermore, if any pending patent application filed by Migao does not result in an issued patent, then the use of any such intellectual property by competitors could have an adverse effect on the Company’s business, financial condition and operating results. Additionally, competitors or other third parties may obtain patents that restrict or preclude the Company’s ability to lawfully produce or sell its products in a competitive manner which could have an adverse effect on the Company’s business, financial condition and operating results.

Infrastructure

Industrial activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinations, which affect capital and operating costs. Unusual or infrequent weather phenomena, malfunction, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company’s business and operations, financial condition and operating results.

Future Capital Requirements

The development of the Company’s business may require additional financing, which may be substantial. The Company’s future capital requirements will depend upon many factors, including maintenance, plant expansion and expansion of its sales and marketing efforts. Failure to obtain sufficient financing may result in delaying, scaling back, eliminating or indefinitely postponing the development schedule and its current or future programs. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

There is no assurance that the Company’s business will generate sufficient cash flow from operations in the future to service its debt and make necessary capital expenditures, in which case the Company may seek additional financing, dispose of certain assets or seek to refinance some or all of its debt.

Although Chinese banks are in the midst of reform, the basis on which they can lend money is not transparent and they do not often lend money to foreign invested enterprises. Obtaining financing from a Chinese bank will, to a certain extent, involve leveraging personal relationships. There is no guarantee that Migao will have the right relationships if and when it requires further financing. The Chinese government has articulated the need to try and control the rate of economic growth in China and has set out stricter lending policies, and this too could adversely affect the Company’s ability to obtain future bank financing in China.

Technical Substitution

Presently, the “Double Decomposition Process” process is used by Sichuan Migao to produce agricultural potassium nitrate. However, along with the discovery of new resources, technical progress, and the increasing advances in chemical production, new processes may be developed to produce higher quality and/or lower cost agricultural potassium nitrate.

Guangdong Migao and Liaoning Migao installed the “Mannheim Process” to produce potassium sulphate, one of the most commonly used quality potassium sulphate processes in the world. In recent years, a number of different potassium sulphate productive technologies have been developed in China. Although none of them are currently widely used due to lack of operational history and a lack of raw materials, there may be new potassium sulphate production processes developed or employed which may have new or additional benefits.

The development of new technologies and fertilizer-related products could have an adverse effect on the Company’s business, financial condition and operating results.

Exchange Rate Fluctuations

The value of the RMB fluctuates and is subject to various factors such as changes in political and economic conditions. Since 1994, the official exchange rate for the conversion of RMB to US dollars has generally been stable. On July 21, 2005, the RMB was revaluated upwards by approximately 2% against the US dollar when the People’s Bank of China (“PBOC”) announced the change of the RMB exchange regime from a US dollar peg system to a managed floating exchange rate regime based on a basket of currencies. Thereafter, the RMB has been allowed to fluctuate daily by not more than 0.3% against the US dollar.

Exchange rate fluctuations may adversely affect the Company’s financial position and operating results. There is no assurance that the value of the RMB will remain at the current level against the US dollar or against any other foreign currency. The Company does not currently have in place a policy for managing or controlling foreign currency risks since, to date, its primary activities have not resulted in material exposure to foreign currency risk.

As the Company reports financial results in Canadian dollars but earns its revenue in RMB, an increase in the Canadian dollar relative to the RMB will adversely affect the value, translated or converted into Canadian dollars, of the Company’s revenue and net income.

Insurance

Migao’s operating subsidiaries maintain property and casualty insurance on certain of their assets. However, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. Operating subsidiaries of the Company may also elect not to be insured against certain liabilities due to high premium costs or for other reasons. Furthermore, although the subsidiaries maintain insurance against such claims and in such amounts as each considers adequate, there can be no assurance that such insurance policies will be sufficient to cover each and every claim or loss. In the event the subsidiaries were to suffer an uninsured loss, their business, financial condition and operating results could be materially adversely affected.

Foreign Operations

Currently, the Company’s operations are conducted in the PRC and it is anticipated that this will continue to be the case. As such, the Company’s operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; government corruption; changing political conditions; currency controls and governmental regulations that favour or require the awarding of

contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in investment policies or shifts in political attitudes in China may adversely affect the Company’s operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, land use, land claims of local peoples and water use. Any events resulting in an adverse impact on the Chinese economy may have an adverse effect on the Company’s profitability and prospects.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company’s business, financial condition and operating results. See “Risks of Doing Business in China” below.

Weather Conditions and Natural Disasters

Weather conditions affect the demand for the Company’s products and the availability of raw materials and other inputs. For example, weather conditions such as floods, droughts, or frost can cause crop failures that in turn affect the demand for fertilizer. Unfavourable weather conditions or the occurrence of natural disasters (such as fire, insect infestation and earthquake) may affect the Company’s business, financial condition and operating results.

Control by Management

Management has significant aggregate stock ownership and effective control, with the ability to perpetuate their status as officers and directors and, therefore, conduct the business and affairs of the Company. While the rights of minority shareholders would be protected in Canada, judgements rendered against the Company and/or its subsidiaries would likely not be enforceable in China.

Seasonality

The Company is exposed to some seasonality risk due to factors including, but not limited to, the nature of its products, weather conditions and the buying patterns of major customers. These potential seasonality factors should also be considered together with the growth of the business. While some factors are not within its control, the Company can mitigate the risk by negotiating purchasing times with major customers and establishing a sales network across PRC to span different regions and weather conditions.

Dividends

The Company does not plan on declaring any dividends in the foreseeable future. Any future dividend policy will be determined by the Board of Directors of the Company.

Conflicts of Interest

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

Risks of Doing Business in China

State Ownership

The Company carries on its business in China and derives all of its profit from the activities of its operating subsidiaries. As such, the Company’s subsidiaries’ operating results, financial positions and prospects are subject to a significant degree of risk relating to certain economic, political, social and legal developments in China.

The Chinese economy differs from the economies of most developed countries in a number of respects, including its structure, the level of government involvement, the level of development, the control of foreign exchange and the allocation of resources.

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, China’s economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China’s economic growth through the allocation of resources, control for foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, government policies relating to currency conversion, taxation, import restrictions and the trading of imported goods, among others, continue to have a significant impact on the overall economy, as does the presence of the government as a market participant as well as the market regulator. Many of the policy changes initiated since 1978 are unprecedented in China, experimental in nature, and are frequently refined and readjusted. Political and social factors may also lead to further refinements and readjustments. Any changes in Chinese political, economic or social conditions, or to the current laws and regulations, or their interpretations, may adversely affect the Company’s profitability and prospects.

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The Chinese government has implemented various macro-economic control measures from time to time in order to try and control the rate of economic

growth, including certain measures which were put in place to restrict bank lending. Some of these measures may have a negative effect on the Company. For example, the Company’s operating results and financial position may be adversely affected by: changes in the rate or method of taxation; imposition of additional restrictions on currency conversion and remittances abroad; reduction in tariff or quota protection and other import restrictions; changes in the usage and costs of state-controlled transportation services; and state policies affecting the fertilizer industry. In addition, such macro-economic control measures may have a general adverse impact on the Chinese economy that would, in turn, likely have an adverse impact on the Company’s business, financial condition and operating results.

Government Sector Intervention

The central and local governments exercise a substantial degree of influence over the fertilizer industry in China and, as a result, set standards that new entrants must meet through approval of major capital expenditure projects; setting or approving the framework for the pricing of electricity and other utilities and railway transportation; and setting tax levies and incentives, import quotas and tariffs, and safety, environmental and quality standards.

If the Chinese government changes its current policies, or the interpretation of those policies, the Company may face significant constraints on its flexibility and ability to expand its business operations or to maximize its profitability. Under current Chinese regulatory requirements, all major capital expenditure projects require Chinese national and/or provincial government approval.

Foreign Investment

In China, companies with a foreign ownership component could be required to work within a framework which is different to that imposed on local companies. The Chinese government is currently opening up opportunities for foreign investment in fertilizer projects and this process is expected to continue, especially given China’s recent entry into the World Trade Organization. If, however, the Chinese government should reverse this trend and impose greater restrictions on foreign companies, the Company’s ability to conduct business in China could be negatively affected.

Repatriation of Profit and Currency Conversion

The Chinese government imposes control over the convertibility of the RMB into foreign currencies. With effect from July 21, 2005, the PRC government has reformed the RMB exchange rate regime into a managed floating exchange rate regime based on market supply and demand with reference to a portfolio of currencies, giving more flexibility as compared with the former system in which the RMB was pegged to the US dollar. See “Exchange Rate Fluctuations” above. Under the reformed system, the PBOC announces the closing price of a foreign currency traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for trading against the RMB on the following working day. PRC banks licensed to engage in foreign exchange transactions use the closing price announced

by the PBOC as a basis and decide a rate of their own to enter into foreign exchange sale and purchase transactions with customers; such rate shall be within a specified floating band around the central parity which may be adjusted by the PBOC from time to time according to the economic and financial condition of the PRC. Although such new regulations have provided for greater liquidity of the RMB, the RMB is still not a freely convertible currency.

Migao’s operating subsidiaries earn all of their revenues in RMB. Under current regulations, there is no restriction on foreign exchange conversion on the current account (including dividend payments to foreign investors) although any foreign exchange transaction on the capital account is subject to significant foreign exchange controls and requires the prior approval from the State Administration of Foreign Exchange (“SAFE”). However, even on the current account, the RMB is not a freely convertible currency. Migao’s operating subsidiaries are allowed to pay outstanding current account obligations in foreign exchange but must present the proper documentation to a designated foreign exchange bank to prove the authenticity of foreign exchange under the current account. While the Chinese government is generally relaxing restrictions on foreign trade and investment, there is no certainty that all future local currency can be repatriated.

There can also be no assurance that the availability of foreign currency will be sufficient for the Company’s operating subsidiaries to satisfy their other foreign currency obligations. This may, in turn, adversely affect the Company’s ability to pay dividends. There is also no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. In addition, failure to obtain approval from SAFE for currency conversion on the capital account may impact on the Company’s capital expenditure plans and its ability to expand in accordance with its objectives.

Tax

The Company’s subsidiaries currently receive special tax treatment in China. As a result of national tax regulations and local incentives, a reduced enterprise income tax rate is granted to foreign invested companies registered in specific economic development zones. Accordingly, the subsidiaries pay enterprise income tax at a reduced rate.

The Enterprise Income Tax Law (“EITL”) enacted in March 2007 will remove the tax incentives currently offered to foreign invested enterprises since wholly domestically owned companies did not receive such incentives. Established Migao operating subsidiaries may enjoy certain “grandfathering” provisions under the EITL, however there can be no certainty in this regard until each subsidiary applies for, and if available to it, receives, approval. Any increase in the tax rate to which the Company or its subsidiaries are subject, pursuant to the EITL or otherwise, will reduce the net profitability of the Company. Such reduction could be material and historical financial results may thus not be indicative of results for future periods.

Under current Chinese laws, any dividends H.K. Migao Industry Limited (a wholly-owned subsidiary directly held by the Company) may receive from the Migao operating subsidiaries are not subject to Chinese tax. There can be no assurance that these dividends will continue not to be subject to tax in the future.

Shareholders’ Rights and Enforcement of Judgements

As Chinese legal entities, Migao’s operating subsidiaries are subject to Chinese company law and regulations. Chinese company law, in general, and provisions for the protection of shareholders’ rights and access to information, in particular, are less developed than those applicable to companies in other countries. Substantially all of the Company’s assets, through its subsidiaries, are located in China. China does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgements of courts and, as such, recognition and enforcement in China of judgements of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgements rendered against the Company and/or its subsidiaries would likely not be enforceable in China.

Developing Legal System

The Chinese legal system is a system based on written statutes that are often incomplete or drafted ambiguously. They are interpreted by the Supreme Peoples’ Court and prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade.

However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, many judges in the PRC take a pragmatic view of the law and seek to resolve problems without necessarily enforcing the legal rights of the aggrieved parties. As the Chinese legal system develops, changes in such laws and regulations, their interpretation or their enforcement may have a material effect on the Company.

Protection of Intellectual Property Rights

Intellectual property rights in China are still developing and there are uncertainties involved in intellectual property rights protection and the enforcement of such protection. The Company will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated for by a damages award.

Permits and Business Licenses

Migao’s operating subsidiaries hold various permits, business licenses and approvals authorizing their operations and activities which are subject to periodic review and re-assessment by the Chinese authorities. Standards of compliance necessary to pass such reviews change from time to time and differ from jurisdiction to jurisdiction, leading to a degree of uncertainty. If renewals, or new permits, business licenses or approvals required in connection with existing or new facilities or activities, are not granted or are delayed, or if existing permits, business licenses or approvals are revoked or substantially modified, the Company may suffer a material adverse effect. If new standards are applied to renewals or new applications, it could prove costly to the Company to meet any new level of compliance.

Appropriation

Migao’s operating subsidiaries have purchased certain land use rights in China. Under Chinese law, land use rights can be revoked in the public interest, although holders of such appropriated land use rights typically receive compensation. Events in China have shown that the public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent.

Availability of Land

Land in China is divided into agricultural land, construction land and unused land. In October 2007, a new policy was issued by the Chinese government restricting the use or conversion of agricultural land for non-agricultural purposes (which would include the Company’s purposes). While the policy does not prohibit the use of agricultural land for non-agricultural purposes, it may make it more difficult for Migao to secure new land and/or increase the price of available properties.