

Migao Corporation

Management’s Discussion and Analysis

**First Quarter, Fiscal 2009
Ended December 31, 2008**

February 12, 2009

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 three months ended December 31, 2008. This MD&A should be read in conjunction with the unaudited Interim Consolidated Financial Statements and related notes as at and for the period ended December 31, 2008 and the audited Consolidated Financial Statements and related notes as at and for the year ended September 30, 2008. 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 December 31, 2008, the Company had 43,675,611 common shares outstanding. At February 12, 2009, the Company has 43,866,861 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 February 12, 2009.

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 co-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 (1.88 million tonnes annual) relative to imports (5.58 million tonnes) and domestic demand. Considering that indigenous supplies are in Qinghai Province and remote with regard to the high demand regions of the southern and eastern coastal provinces and that potash demand is growing in central and north-western China, imported potash provides the quantity, quality and price required by Migao. Since the 1960’s and 70’s, respectively, nitrogen (N) and phosphorus (P) fertilizers had been in greater demand by China’s farmers because indigenous supply was developed and available. Beginning in the 1980’s and particularly in the past decade, demand for potassium (K) fertilizers has increased substantially as greater yields of high quality crops were achieved with additions of potash. The high value cropping sector was among the first to realize the value of balanced (N, P, K) fertilizer technology. Management of Migao believe it is well positioned to capitalize on the value added specialty 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 Quarter

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

On December 22, 2008, the Company announced that it will change its fiscal year end to March 31 from the current fiscal year end of September 30. The change in year end has been made to better align Migao’s financial reporting, tax planning, and business cycles with customers and suppliers. The change takes effect immediately and therefore Migao will report transitional fiscal 2009 financial results for the six-month period ending March 31, 2009.

On December 4, 2008, the Company reported record annual net income of \$27.3 million or \$0.67 per basic share from revenues of \$187 million for the year ended September 30, 2008. This record achievement represents an increase of 84% and 140% over fiscal 2007 revenues and net income, respectively.

On October 27, 2008, the Company announced that a 100,000 tonne per year compound fertilizer facility is under construction at Sichuan Migao. 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 decision to expand the Company’s line of business into compounding is a result of requests by Migao's largest customer for compound fertilizer and Migao's after sales and service. The Company plans to expand this line of business into other tobacco growing regions in China after the Sichuan facility is fully established at full production levels. The Sichuan-based facility is expected to begin full production in March 2009.

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 for its core products 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“ and “Results of Operations” are two tables the Company uses to assess performance. The first table presents the Company’s consolidated results for the last eight quarters. The second table sets out the Company’s consolidated results for the quarter ended December 31, 2008, compared with the same period last year.

Quarterly Results

| <i>in thousands of Canadian dollars except per share and percentage data</i> | Fiscal 2009 | | Fiscal 2008 | | | Fiscal 2007 | | |
|--|------------------------|-----------|------------------------|-----------|-----------|------------------------|-----------|-----------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenues | 76,531 | 78,161 | 49,681 | 34,506 | 24,680 | 25,496 | 26,865 | 27,712 |
| Gross profit | 17,313 | 19,104 | 12,320 | 8,256 | 5,840 | 4,246 | 6,339 | 6,281 |
| Gross profit (% of revenues) | 22.6 | 24.4% | 24.8% | 23.9% | 23.7% | 16.7% | 23.6% | 22.7% |
| Selected operating expenses: | | | | | | | | |
| Selling | 1,708 | 1,738 | 2,185 | 1,236 | 1,175 | 765 | 950 | 1,335 |
| General and administrative | 2,114 | 2,445 | 1,785 | 1,478 | 909 | 842 | 1,289 | 1,197 |
| Stock-based compensation | 592 | 593 | 804 | 264 | 227 | 226 | 186 | 245 |
| Finance costs | 305 | 208 | 84 | 88 | 81 | 288 | - | - |
| Pre-operating costs | 128 | 52 | 250 | 100 | 17 | 368 | - | - |
| Other income | 309 | - | 131 | 36 | 41 | 72 | 44 | 35 |
| Gain on sale of non-operating subsidiary | - | - | 99 | - | - | - | - | - |
| Income taxes | 824 | 1,168 | 675 | 561 | 371 | (462) | 791 | 200 |
| Income taxes (% of revenues) | 1.1% | 1.5% | 1.4% | 1.6% | 1.5% | (1.8%) | 2.9% | 0.7% |
| Effective tax rate (% of income before taxes) | 6.5% | 8.3% | 9.1% | 10.9% | 10.7% | (25.2%) | 20.0% | 5.7% |
| Net income | 11,951 | 12,870 | 6,767 | 4,565 | 3,100 | 2,292 | 3,167 | 3,338 |
| Net income (% of revenues) | 15.6% | 16.5% | 13.6% | 13.2% | 12.6% | 9.0% | 11.8% | 12.0% |
| EBITDA | 13,983 | 14,967 | 8,222 | 5,830 | 3,991 | 2,214 | 4,530 | 4,250 |
| EBITDA (% of revenues) | 18.3% | 19.1% | 16.5% | 16.9% | 16.2% | 8.7% | 16.9% | 15.3% |
| Earnings per share (in \$): | | | | | | | | |
| Basic | 0.27 | 0.32 | 0.16 | 0.12 | 0.08 | 0.06 | 0.09 | 0.10 |
| Diluted | 0.27 | 0.31 | 0.15 | 0.11 | 0.08 | 0.06 | 0.08 | 0.10 |

Results of Operations

Consolidated Results

The following table sets out the Company’s consolidated results for the quarter ended December 31, 2008, compared with the same period last year.

| <i>In thousands of Canadian dollars except per share and percentage data</i> | Q1 2009 | Q1 2008 | Increase (Decrease) | % Increase (Decrease) |
|--|--------------------|--------------------|--------------------------------|--------------------------------------|
| Revenues | 76,531 | 24,680 | 51,851 | 210.1% |
| Gross profit | 17,313 | 5,840 | 11,473 | 196.5% |
| Gross profit (% of revenues) | 22.6% | 23.7% | (1.1%) | (4.6%) |
| Selling expenses | 1,708 | 1,175 | 533 | 45.4% |
| Selling expenses (% of revenues) | 2.2% | 4.8% | (2.6%) | (54.2%) |
| G & A | 2,114 | 909 | 1,205 | 132.6% |
| G & A (% of revenues) | 2.8% | 3.7% | (0.9%) | (24.3%) |
| Stock-based compensation | 592 | 227 | 365 | 160.8% |
| Stock-based compensation (% of revenues) | 0.8% | 0.9% | (0.1%) | (11.1%) |
| Other income | 309 | 41 | 268 | 653.7% |
| Other income (% of revenues) | 0.4% | 0.2% | 0.2% | 100.0% |
| Income taxes | 824 | 371 | 453 | 122.1% |
| Income taxes (% of revenues) | 1.1% | 1.5% | (0.4%) | (26.7%) |
| Effective tax rate (% of net income before taxes) | 6.5% | 10.7% | (4.2%) | (39.3%) |
| EBITDA | 13,983 | 3,991 | 9,992 | 250.4% |
| EBITDA (% of revenues) | 18.3% | 16.2% | 2.1% | 13.0% |
| Net income (loss) | 11,951 | 3,100 | 8,851 | 285.5% |
| Net income (loss) (% of revenues) | 15.6% | 12.6% | 3.0% | 23.8% |
| Earnings per share | | | | |
| Basic | 0.27 | 0.08 | 0.19 | 237.5% |
| Diluted | 0.27 | 0.08 | 0.19 | 237.5% |
| Weighted average number of common shares outstanding | | | | |
| Basic | 43,675,611 | 37,253,629 | | |
| Diluted | 43,883,557 | 40,088,755 | | |

Revenues

Revenues were \$76.5 million for the quarter ended December 31, 2008 compared with \$24.7 million for the same period last year, representing an increase of \$51.8 million (RMB 245.0 million) or 210.1%. The significant increase is mainly due to the expanded production capacity at certain facilities, production improvements, and significantly higher selling prices. Further positively impacting revenue is a gain on foreign exchange as compared to the same period last year. The run rate for the core products was at 320,000 tonnes as of December 31, 2008, compared with 260,000 tonnes as of December 31, 2007.

Revenues for the quarter ended December 31, 2008 decreased by \$1.6 million (RMB 106.1 million) or 2.1% compared with the previous quarter ended September 30, 2008. The quarter ended December 31, 2009 is in line with expectations as the period is typically the weakest quarter of Migao's fiscal year as a result of generally lower application rates of fertilizers in China at this time.

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 ended December 31, 2008 was \$0.1773 to 1 RMB. The average exchange rate for the quarter ended December 31, 2007 was \$0.1321 to 1 RMB. The average exchange rate for the previous quarter ended September 30, 2008 was \$0.0.1523 to 1 RMB.

The following is a summary of the Company’s facilities and 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 | 192,000 | 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 | | 332,800 | |

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 have significant export sales until fiscal 2010 at the earliest. Currently, domestic Chinese demand consumes all of Migao’s production output.

Gross Profit

Gross profit was \$17.3 million for the quarter ended December 31, 2008 compared to \$5.8 million for the same period last year, representing an increase of \$11.5 million (or 196.5%). Gross margin as a percentage of sales for the quarter ended December 31, 2008 decreased slightly by 1.1% to 22.6% (from 23.7%) compared with the same period last year.

Gross profit for the quarter ended December 31, 2008 decreased by \$1.8 million (or 9.4%) to \$17.3 million (from \$19.1 million) compared with the previous quarter ended September 30, 2008. Gross margin as a percentage of sales for the quarter ended December 31, 2008 decreased by 1.8% to 22.6% (from 24.4%) compared with the previous quarter ended September 30, 2008.

The gross profit margin was impacted by the start-up of the Guangdong Migao additional 60,000 tonnes capacity and the use of higher cost raw material inventory.

Increase in gross profit was due to expanded capacity and the timing of raw material purchases.

The Company expects gross profit margins on an annual basis for its core products to be within its targeted range of between 22% and 24% of revenues.

Selling Expenditures

Selling expenditures for the quarter ended December 31, 2008 increased by \$0.5 million (or 45.4%) to \$1.7 million (from \$1.2 million) compared with the same period last year. Selling expenditures as a percentage of sales for the quarter ended December 31, 2008 decreased by 2.6% to 2.2% (from 4.8%) compared with the same period last year.

Selling expenditures for the quarter ended December 31, 2008 decreased slightly by 1.7% compared with the previous quarter ended September 30, 2008. Selling expenditures as a percentage of sales for the quarter ended December 31, 2008 remained the same compared with the previous quarter ended September 30, 2008.

Selling expenditures include transportation and related costs incurred for delivery of goods to customers by the sales department. Excluding transportation cost, the majority of selling costs are fixed. 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 ended December 31, 2008 increased by \$1.2 million (or 132.6%) to \$2.1 million (from \$0.9 million) compared with the same period last year. General and administrative expenditures as a percentage of sales for the quarter ended December 31, 2008 decreased by 0.9% to 2.8% (from 3.7%) compared with the same period last year.

General and administrative expenditures for the quarter ended December 31, 2008 decreased by \$0.3 million (or 13.5%) to \$2.1 million (from \$2.4 million) compared with the previous quarter ended September 30, 2008.

General and administrative expenditures as a percentage of sales for the quarter ended December 31, 2008 decreased by 0.3% to 2.8% (from 3.1%) compared with the previous quarter ended September 30, 2008.

General and administrative expenditures include finance, human resources and management staff as well as facilities expenses, supplies and non-production equipment depreciation. It also includes corporate level expenses such as legal, accounting, auditing, consulting and directors’ fees. 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 ended December 31, 2008 increased by \$8.9 million (or 285.5%) to \$12.0 million (from \$3.1 million) compared with the same period last year. Net earnings as a percentage of sales for the quarter ended December 31, 2008 increased by 3.0% to 15.6% (from 12.6%) compared with the same period last year. Increase in net earnings was due to expanded production capacity and production improvements.

Net earnings for the quarter ended December 31, 2008 decreased by \$0.9 million (or 7.1%) to \$12.0 million (from \$12.9 million) compared with the previous quarter ended September 30, 2008. Net earnings as a percentage of sales for the quarter ended December 31, 2008 decreased by 0.9% to 15.6% (from 16.5%) compared with the previous quarter ended September 30, 2008. Decrease in net earnings compared to the previous quarter is primarily a result of the use of higher cost raw material inventory.

Earnings per Share

Earnings per share was \$0.27 (\$0.27 fully diluted) for the quarter ended December 31, 2008 compared with \$0.08 (\$0.08 fully diluted) for the same period last year, representing an increase of \$0.19 (or 237.5%). Increase in earnings per share was due to expanded capacity and higher year over year selling prices.

Earnings per share for the quarter ended December 31, 2008 decreased by \$0.05 (or 15.6%) to \$0.27 (from \$0.32) compared with the previous quarter ended September 30, 2008. The decrease in earnings per share compared to the previous quarter is also due to the use of higher cost raw material inventory.

The total stock-based compensation expense for the quarter ended December 31, 2008 was \$0.6 million, resulting in a decrease of \$0.02 (\$0.02 fully diluted) on earnings per share.

EBITDA

EBITDA for the quarter ended December 31, 2008 increased by \$10.0 million (or 250.4%) to \$14.0 million (from \$4.0 million) compared with the same period last year. EBITDA as a percentage of sales for the quarter ended December 31, 2008 increased by 2.1% to 18.3% (from 16.2%) compared with the same period last year. Increase in EBITDA was due to capacity expansions and higher year over year selling prices.

EBITDA for the quarter ended December 31, 2008 decreased by \$1.0 million (or 6.6%) to \$14.0 million (from \$15.0 million) compared with the previous quarter ended September 30, 2008. EBITDA as a percentage of sales for the quarter ended December 31, 2008 decreased by 0.8 % to 18.3% (from 19.1%) compared with the previous quarter ended September 30, 2008. Decrease in EBITDA was also mainly due to the use of higher cost raw material inventory.

Liquidity and Capital Resources

(in thousands of Canadian dollars except for ratios)

| | December 31, 2008 | September 30, 2008 |
|-----------------------------|--------------------------|---------------------------|
| Current Ratio | 3.79 : 1 | 3.32 : 1 |
| Cash | 17,816 | 16,850 |
| Working Capital | 116,735 | 95,343 |
| Total Assets | 249,709 | 209,394 |
| Total Debt | 41,902 | 41,016 |
| Total Equity | 207,807 | 168,378 |
| Debt to Equity Ratio | 0.20 : 1 | 0.24 : 1 |

Cash Position

Cash and cash equivalents totalled \$17.8 million as of December 31, 2008, representing an increase of \$0.9 million compared with the balance as of September 30, 2008. The increase for the quarter ended December 31, 2008 is a result of \$5.3 million cash inflow from operations, \$0.5 million net proceeds from bank loans, and \$2.2 million foreign exchange gain, offset by \$7.1 million invested in capital assets mainly for the expansion of Sichuan Migao, Guangdong Migao and Liaoning Migao.

At December 31, 2008, the Company had short-term bank loans outstanding totalling \$16.6 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 \$5.8 million.

Migao has approximately \$4.8 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 planned 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 \$116.7 million as of December 31, 2008, representing an increase of \$21.4 million compared with the balance as of September 30, 2008. This increase is primarily attributable to \$0.9 million increase in cash and cash equivalents, \$18.9 million increase in accounts receivable, \$12.0 million increase in

prepayments, deposits and other receivables, \$2.3 million decrease in accounts payable and accrued liabilities, \$0.3 million decrease in net future income tax liabilities, and offset by \$9.2 million decrease in inventory, \$2.7 million increase in bank loans, \$0.9 million increase in customer deposits, and \$0.2 million increase in net income taxes payable.

At the end of the quarter, the Company had \$45.7 million (63,930 tonnes) of potassium chloride inventory with average delivered price of \$716 per tonne and \$18.5 million (42,104 tonnes) of finished goods inventory on hand.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$46.1 million at December 31, 2008 compared with \$34.3 million as of September 30, 2008.

Construction in progress was \$17.1 million at December 31, 2008, compared with \$10.3 million as of September 30, 2008. These balances consist mainly of the construction costs attributable to expenses at Sichuan Migao compounding facility, Liaoning Migao sulphuric acid facility, as well as additional potassium sulphate capacity at Guangdong Migao and Shanghai Migao.

Land use rights net of accumulated amortization was \$24.6 million at December 31, 2008 compared with \$21.1 million as of September 30, 2008. The slight increase is mainly due to unrealized foreign exchange gains on land use rights experienced during the quarter.

Contractual Obligation Summary

- Purchase contracts for raw materials and supplies in the amount of approximately \$7.6 million exist as of December 31, 2008. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$7.1 million exist as of December 31, 2008. They were entered into in the normal course of business.

Report on Controls

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at December 31, 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.

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.

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 February 12, 2009, there were:

- 43,866,861 common shares outstanding.
- 1,355,000 stock options outstanding, with exercise prices of between \$2.85 to \$9.93, and weighted average remaining life of 3.22 years. 441,666 of these stock options are exercisable as of February 12, 2009.

- 2,532,550 warrants outstanding, with exercise price of \$5.30, exercisable 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

During the quarter, 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. In addition, LYEDC has provided corporate guarantees on \$7,180,000 of the Company’s short-term bank loans outstanding as of December 31, 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 2008, the Company has negotiated prices for its potash-based products reflecting more than a 100% increase over the average selling price in 2007.

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 calendar 2008, the facility added the capability to produce potassium nitrate in an upgraded form. The upgrade was completed in September and phase-in production began in December 2008. In addition, a 100,000 tonne per year compound fertilizer facility was constructed and full production will begin in March 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 mid-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 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 June 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 early 2009, 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 by the first half of calendar 2010.

Capital Expenditure Summary

For the quarter ended December 31, 2008, the total capital expenditure for all of the expansion projects noted above was \$7.0 million. For the transition year ended March 31, 2009, the capital expenditure is budgeted up to approximately \$20.0 million.

The following is a summary of the Company’s facilities and expected production capacities as of March 31, 2009.

| | 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 | 192,000 | 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 | | 332,800 | |

| | Core Product | Annual Capacity (tonnes) | Co-Product | Annual Capacity (tonnes) | Production Commencement |
|---------|---------------------|---------------------------------|-------------------|---------------------------------|--------------------------------|
| Sichuan | Compound Fertilizer | 100,000 | N/A | N/A | March 2009 |

It is anticipated that revenues for the four quarters from October 1, 2008 through September 30, 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 (This guidance is the same as discussed in the September 30, 2008 MD&A). The Company will update the guidance for the new fiscal year ended March 31, 2010 in the March 31, 2009 MD&A.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company’s unaudited Consolidated Financial Statements for the three month period ended December 31, 2008 and the audited Consolidated Financial Statements for the year ended September 30, 2008 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 2008 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 changes including initial adoption

Effective October 1, 2008, the Company implemented the new CICA accounting Section 3031 - Inventories, replacing Section 3030. 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. This Section did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows; however, the Company now carries raw materials inventory at the lower of cost and net realizable value. Previously, the Company carried raw materials inventory at the lower of cost and replacement cost.

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 adoption of these new standards did not impact the amounts reported in the Company’s consolidated financial statements.

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 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 Company is required to adopt IFRS for the year beginning April 1, 2011 and is required to restate the comparative figures. While the Company has begun assessing and reviewing the impact of IFRS, and has 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 Company is exposed to a variety of risks in the normal course of operations. In the Annual Information Form of the Company dated December 29, 2008, 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.