

Migao Corporation

Management’s Discussion and Analysis

**First Quarter, Fiscal 2010
Ended June 30, 2009**

August 10, 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 June 30, 2009. 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 June 30, 2008 and the audited Consolidated Financial Statements and related notes as at and for the year ended March 31, 2009. 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 June 30, 2009, the Company had 46,459,661 common shares outstanding. At August 10, 2009, the Company has 46,459,661 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 August 10, 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, primarily 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 (approximately 3 million tonnes annual) relative to imports (approximately 5.6 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:

On June 3, 2009, the Company reported net income of \$24.6 million or \$0.56 per basic share from revenues of \$161 million for the six-months ended March 31, 2009. Migao changed its year end to March 31 effectively December 22, 2008, resulting in a six month stub period. These results represent an increase of 173% and 219% over revenue and net income of the same period in 2008, respectively.

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 and product tonnage 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 June 30, 2009, compared with the same period last year.

Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	Fiscal	Fiscal		Fiscal			Fiscal	
	2010	2009		2008			2007	
	Q1	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	58,928	84,953	76,531	78,161	49,681	34,506	24,680	25,496
Gross profit	14,608	18,977	17,313	19,104	12,320	8,256	5,840	4,246
Gross profit (% of revenues)	24.8%	22.3%	22.6%	24.4%	24.8%	23.9%	23.7%	16.7%
Selected operating expenses:								
Selling	660	1,617	1,708	1,738	2,185	1,236	1,175	765
General and administrative	1,772	2,614	2,114	2,445	1,785	1,214	909	842
Stock-based compensation	565	556	592	593	804	264	227	226
Finance costs	206	(18)	305	208	84	88	81	288
Pre-operating costs	264	38	128	52	250	100	17	368
Other income	52	51	309	-	131	36	41	72
Gain on sale of non-operating subsidiary	-	-	-	-	99	-	-	-
Income taxes	1,635	1,510	824	1,168	675	561	371	(462)
Income taxes (% of revenues)	2.8%	1.8%	1.1%	1.5%	1.4%	1.6%	1.5%	(1.8%)
Effective tax rate (% of income before taxes)	14.6%	10.6%	6.5%	8.3%	9.1%	10.9%	10.7%	(25.2%)
Net income	9,558	12,711	11,951	12,870	6,767	4,565	3,100	2,292
Net income (% of revenues)	16.2%	15.0%	15.6%	16.5%	13.6%	13.2%	12.6%	9.0%
EBITDA	12,607	15,296	13,983	14,967	8,222	5,830	3,991	2,214
EBITDA (% of revenues)	21.4%	18.0%	18.3%	19.1%	16.5%	16.9%	16.2%	8.7%
Earnings per share (in \$):								
Basic	0.21	0.28	0.27	0.32	0.16	0.12	0.08	0.06
Diluted	0.20	0.28	0.27	0.31	0.15	0.11	0.08	0.06

Results of Operations

Consolidated Results

The following table sets out the Company’s consolidated results for the quarter ended June 30, 2009, compared with the same period last year.

<i>In thousands of Canadian dollars except per share and percentage data</i>	Q1 2010	Q3 2008	Increase (Decrease)	% Increase (Decrease)
Revenues	58,928	49,681	9,247	18.6%
Gross profit	14,608	12,320	2,288	18.6%
Gross profit (% of revenues)	24.8%	24.8%	0.0%	0.0%
Selling expenses	660	2,185	(1,525)	(69.8%)
Selling expenses (% of revenues)	1.1%	4.4%	(3.3%)	(75.0%)
G & A	1,772	1,785	(13)	(0.7%)
G & A (% of revenues)	3.0%	3.6%	(0.6%)	(16.7%)
Stock-based compensation	565	804	(239)	(29.7%)
Stock-based compensation (% of revenues)	1.0%	1.6%	(0.6%)	(37.5%)
Other income	52	131	(79)	(60.3%)
Other income (% of revenues)	0.1%	0.3%	(0.2%)	(66.7%)
Income taxes	1,635	675	960	142.2%
Income taxes (% of revenues)	2.8%	1.4%	1.4%	100.0%
Effective tax rate (% of net income before taxes)	14.6%	9.1%	5.5%	60.4%
EBITDA	12,607	8,222	4,385	53.3%
EBITDA (% of revenues)	21.4%	16.5%	4.9%	29.7%
Net income (loss)	9,558	6,767	2,791	41.2%
Net income (loss) (% of revenues)	16.2%	13.6%	2.6%	19.1%
Earnings per share				
Basic	0.21	0.16	0.05	31.3%
Diluted	0.20	0.15	0.05	33.3%
Weighted average number of common shares outstanding				
Basic	46,459,661	42,650,696		
Diluted	46,947,233	44,703,286		

Revenues

Revenues were \$58.9 million for the quarter ended June 30, 2009 compared with \$49.7 million for the same period last year, representing an increase of \$9.2 million (RMB 2.7 million) or 18.6%. The significant increase is mainly due to the expanded production capacity at certain facilities, production improvements, and higher selling prices. Further positively impacting revenue is a gain on foreign exchange as compared to the same period last year. The annual run rate for the core products was at 320,000 tonnes as of June 30, 2009, compared with 260,000 tonnes as of June 30, 2008.

Revenues for the quarter ended June 30, 2009 decreased by \$26.0 million (RMB 122.0 million) or 30.6% compared with the previous quarter ended March 31, 2009. The decreased revenue is mainly due to major maintenance shutdowns, slightly lower selling prices, and a stronger Canadian dollar.

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 June 30, 2009 was \$0.1709 to 1 RMB. The average exchange rate for the quarter ended June 30, 2008 was \$0.1452 to 1 RMB. The average exchange rate for the previous quarter ended March 31, 2009 was \$0.1822 to 1 RMB.

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

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

Core Product	Deliveries During the Quarter (tonnes)
Potassium Nitrate	16,836
Potassium Sulphate	48,066
Total	64,902

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 the current 105% export tax is reduced or at such time that Migao builds a production facility outside of the PRC. Currently, domestic Chinese demand consumes all of Migao’s production output.

Gross Profit

Gross profit was \$14.6 million for the quarter ended June 30, 2009 compared to \$12.3 million for the same period last year, representing an increase of \$2.3 million (or 18.6%). Gross margin as a percentage of sales for the quarter ended June 30, 2009 remained the same compared with the same period last year. The increase in gross profit is due to expanded capacity and increased selling prices of finished goods as a result of strong customer relations.

Gross profit for the quarter ended June 30, 2009 decreased by \$4.4 million (or 23.0%) to \$14.6 million (from \$19.0 million) compared with the previous quarter ended March 31, 2009. Decrease in gross profit is due to slightly lower selling prices and reduced output as a result of maintenance shutdowns at certain facilities. Gross margin as a percentage of sales for the quarter ended June 30, 2009 increased by 2.5% to 24.8% (from 22.3%) compared with the previous quarter ended March 31, 2009. Increase in gross margin percentage is due to the timing of raw material purchases in a period of decreasing potash pricing.

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 June 30, 2009 decreased by \$1.5 million (or 69.8%) to \$0.7 million (from \$2.2 million) compared with the same period last year. Selling expenditures as a percentage of sales for the quarter ended June 30, 2009 decreased by 3.3% to 1.1% (from 4.4%) compared with the same period last year. The decrease was a result of lower freight-out costs as some customers decided to pick up the products and transport them at their own costs.

Selling expenditures for the quarter ended June 30, 2009 decreased by 59.2% compared with the previous quarter ended March 31, 2009. Selling expenditures as a percentage of sales for the quarter ended June 30, 2009 decreased by 0.8% to 1.1% (from 1.9%) compared with the previous quarter ended March 31, 2009.

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.

General and Administrative Expenditures

General and administrative expenditures for the quarter ended June 30, 2009 remained the same at \$1.8 million compared with the same period last year. General and administrative expenditures as a percentage of sales for the quarter ended June 30, 2009 decreased by 0.6% to 3.0% (from 3.6%) compared with the same period last year.

General and administrative expenditures for the quarter ended June 30, 2009 decreased by \$0.8 million (or 32.2%) to \$1.8 million (from \$2.6 million) compared with the previous quarter ended March 31, 2009.

General and administrative expenditures as a percentage of sales for the quarter ended June 30, 2009 decreased by 0.1% to 3.0% (from 3.1%) compared with the previous quarter ended March 31, 2009.

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 June 30, 2009 increased by \$2.8 million (or 41.2%) to \$9.6 million (from \$6.8 million) compared with the same period last year. Net earnings as a percentage of sales for the quarter ended June 30, 2009 increased by 2.6% to 16.2% (from 13.6%) compared with the same period last year. Increase in net earnings and net earnings percentage were due to expanded production capacity and higher selling prices.

Net earnings for the quarter ended June 30, 2009 decreased by \$3.1 million (or 24.8%) to \$9.6 million (from \$12.7 million) compared with the previous quarter ended March 31, 2009. Decrease in net earnings compared to the previous quarter is primarily a result of slightly lower selling prices and reduced output as a result of maintenance shutdowns at certain facilities. Net earnings as a percentage of sales for the quarter ended June 30, 2009 increased by 1.2% to 16.2% (from 15.0%) compared with the previous quarter ended March 31, 2009. Increase in net earnings percentage is due to timing of raw material purchases in a period of decreasing potash pricing.

Earnings per Share

Earnings per share was \$0.21 (\$0.20 fully diluted) for the quarter ended June 30, 2009 compared with \$0.16 (\$0.15 fully diluted) for the same period last year, representing an increase of \$0.05 (or 31.3%). Increase in earnings per share was due to expanded capacity and higher year over year selling prices.

Earnings per share for the quarter ended June 30, 2009 decreased by \$0.07 (or 25.0%) to \$0.21 (from \$0.28) compared with the previous quarter ended March 31, 2009. Decrease in earnings per share was mainly due to slightly lower selling prices and reduced output as a result of maintenance shutdowns at certain facilities.

The total stock-based compensation expense for the quarter ended June 30, 2009 was \$0.6 million, resulting in a decrease of \$0.01 (\$0.01 fully diluted) on earnings per share.

EBITDA

EBITDA for the quarter ended June 30, 2009 increased by \$4.4 million (or 53.3%) to \$12.6 million (from \$8.2 million) compared with the same period last year. EBITDA as a percentage of sales for the quarter ended June 30, 2009 increased by 4.9% to 21.4% (from 16.5%) compared with the same period last year. Increases in EBITDA and EBITDA percentage were due to capacity expansions and higher year over year selling prices.

EBITDA for the quarter ended June 30, 2009 decreased by \$2.7 million (or 17.6%) to \$12.6 million (from \$15.3 million) compared with the previous quarter ended March 31, 2009. Decrease in EBITDA is due to slightly lower selling prices and reduced output as a result of maintenance shutdowns at certain facilities. EBITDA as a percentage of sales for the quarter ended June 30, 2009 increased by 3.4% to 21.4% (from 18.0%) compared with the previous quarter ended March 31, 2009. Increase in EBITDA percentage is due to timing of raw material purchases in a period of decreasing potash pricing.

Liquidity and Capital Resources

<i>(in thousands of Canadian dollars except for ratios)</i>	June 30, 2009	March 31, 2009
Current Ratio	5.05:1	5.40 : 1
Cash	4,435	42,241
Working Capital	142,120	146,210
Total Assets	268,563	275,192
Total Debt	35,297	33,639
Total Equity	233,266	241,553
Debt to Equity Ratio	0.15:1	0.14 : 1

Cash Position

Cash and cash equivalents totalled \$4.4 million as of June 30, 2009, representing a decrease of \$37.8 million compared with the balance as of March 31, 2009. The decrease for the quarter ended June 30, 2009 is a result of \$32.8 million cash outflow from operations primarily from increased account receivables, \$0.6 million net repayment of bank loans, \$1.8 million foreign exchange loss, and \$2.6 million invested in capital assets and construction mainly for the expansion of Sichuan Migao, Guangdong Migao and Liaoning Migao.

Migao has approximately \$0.6 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 \$142.1 million as of June 30, 2009, representing a decrease of \$4.1 million compared with the balance as of March 31, 2009. This decrease is primarily attributable to \$37.8 million decrease in cash and cash equivalents, \$17.5 million decrease in inventory, \$0.1 million decrease in net due from related parties, \$0.2 million decrease in net future income tax assets, \$4.2 million increase in accounts payable and accrued liabilities, \$0.7 million increase in customer deposits, and offset by \$40.6 million increase in accounts

receivable, \$12.4 million increase in prepayments, deposits and other receivables, \$2.2 million decrease in bank loans, and \$1.2 million decrease in net income taxes payable.

Accounts receivable increased as a result of the Company giving long term customers who traditionally pay in advance an incentive by giving them credit terms. This program was put in place to maintain margin and demand during a time of uncertainty with potash pricing.

At the end of the quarter, the Company had \$49.2 million (86,189 tonnes) of potassium chloride inventory with an average delivered price of \$570 per tonne, of which 85,505 tonnes were on hand and the remainder in transit. In addition, during the quarter, the Company sold 16,836 tonnes of potassium nitrate and 48,066 tonnes of potassium sulphate, and at the end of the quarter, the Company had \$10.3 million (40,307 tonnes) of finished goods inventory on hand, including co-products.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$54.2 million at June 30, 2009 compared with \$52.2 million as of March 31, 2009.

Construction in progress was \$12.8 million at June 30, 2009, compared with \$16.0 million as of March 31, 2009. These balances consist mainly of the construction costs attributable to expenses at Liaoning Migao sulphuric acid facility and additional potassium sulphate capacity at Shanghai Migao.

Land use rights net of accumulated amortization was \$22.2 million at June 30, 2009 compared with \$25.1 million as of March 31, 2009. The slight decrease is mainly due to unrealized foreign exchange losses on land use rights experienced during the quarter.

Contractual Obligation Summary

- Purchase contracts for raw materials and supplies in the amount of approximately \$28.5 million exist as of June 30, 2009. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$1.5 million exist as of June 30, 2009. 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 June 30, 2009 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 June 30, 2009, management 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.

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 has reviewed the organizational structure of the accounting group in the PRC and with the approval of the Audit Committee has retained KPMG LLP to assist in the strengthening of its resources to reflect the Company’s growth plans. KPMG LLP will assist in Internal Audit, Internal Controls review and implementation, other support services, and continued compliance under NI52-109. These services will be critical for the Company’s development of the three new planned production facilities, joint venture production facility, and its developing international expansion plans.

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 August 10, 2009, there were:

- 46,459,661 common shares outstanding.

- 1,520,000 stock options outstanding, with exercise prices of between \$2.85 to \$9.93, and weighted average remaining life of 3.48 years. 1,014,999 of these stock options are exercisable as of August 10, 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 ended June 30, 2009, the Company paid or accrued service fees of \$Nil for services performed by Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”). Because of the difficulty in determining the fair market value, the value of these contributed services were not recognized in the financial statements. In addition, the Company purchased raw material from Beijing Wei De Sen (“BWDS”) for \$21,626. The Company also paid land transfer taxes of \$90,316 on behalf of Sichuan SQM – Migao Chemical Fertilizer Co., Ltd (“SQM JV”). 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. Lastly, LYEDC has provided corporate guarantees on \$6.8 million of the Company’s short-term bank loans outstanding as of June 30, 2009 and LYEDC has not charged any fees relating to these guarantees.

BWDS and LYEDC are both controlled by an officer and director of Migao. SQM JV is a joint venture that the Company is in the process of setting up with Sociedad Quimicay Minera de Chile S.A.

During the quarter ended June 30, 2009, an officer and director of the Company had forgiven his salary of \$25,000. The forgiven salary has been included in the Company’s contributed surplus.

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 increase 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 compared to prior years. 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.

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. During calendar 2008, the facility added the capability to produce potassium nitrate in an upgraded form and phase-in production began in December 2008. In addition, a 100,000 tonne per year compound fertilizer facility was constructed and test batch production began in March 2009. The first order for the compound facility will go into production during the second quarter of fiscal 2010. 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 was completed by July 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 first half of calendar 2010. 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 were obtained at the end of May 2009, allowing for the completion of construction scheduled to be completed by the first half of calendar 2010.

Tianjin Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity will be constructed in the city of Tianjin. Construction will begin as soon as necessary environmental approvals are obtained from Chinese government officials.

Zunyi Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity will be constructed in the city of Zunyi. Delays at the Zunyi construction site are a result of delays in the construction of a public road connected to the construction site. Construction of the facility will begin as soon as the public road is built by the Chinese government.

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 June 30, 2009, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$4.0 million. For the year ended March 31, 2010, the capital expenditure is budgeted for approximately \$30 million.

The following is a summary of the Company’s facilities and expected production capacities as of August 10, 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	

	Other Products	Annual Capacity (tonnes)	Production Commencement
Sichuan	Compound Fertilizer	100,000	July 2009
Liaoning	Sulphuric Acid	120,000	August 2009

It is anticipated that revenues for fiscal 2010 will be in the range of \$290 million to \$320 million. This forecast is based on the Company’s estimated selling prices based on market estimates for raw materials, estimated foreign exchange rate, and production capacity.

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 June 30, 2009 and the audited Consolidated Financial Statements for the year ended March 31, 2009 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 2009 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

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 this new standard 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 profit-oriented publicly accountable enterprises 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. The Company has completed a diagnostic report and has identified most differences. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

In January 2009, the CICA issued Handbook Sections 1582 - Business Combinations (“Section 1582”),

Section 1601 - Consolidated Financial Statements (“Section 1601”), and Section 1602 - Non-controlling Interests (“Section 1602”). Section 1582 replaces CICA Handbook Section 1581- Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after April 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 replaces CICA Handbook Section 1600 - Consolidated Financial Statements. These new sections establish standards for the preparation of consolidated financial statements. Sections 1601 and 1602 are applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning April 1, 2011. Early adoption of these sections is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these new sections to have a material impact on its consolidated financial position or results of operations unless transactions occur.

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 June 26, 2009, 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.