

Migao Corporation

Management’s Discussion and Analysis

**Second Quarter, Fiscal 2010
Ended September 30, 2009**

November 11, 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 and six months ended September 30, 2009. This MD&A should be read in conjunction with the unaudited Consolidated Financial Statements and related notes as at and for the period ended September 30, 2009 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.

On December 22, 2008, the Company changed its fiscal year end to March 31 from the 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. Accordingly, the financial year ended March 31, 2009 reflects a six month transitional period from October 1, 2008 to March 31, 2009. The three and six months ended September 30, 2009 is being compared to July 1, 2008 to September 30, 2008 and April 1, 2008 to September 30, 2008.

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, 2009, the Company had 46,459,661 common shares outstanding. At November 11, 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 November 11, 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 September 30, 2009, the Company announced several contracts to deliver 75,000 tonnes of its specialty potash fertilizers to high value crop customers across China. Three large contracts with recurring tobacco and fruit and vegetable customers comprise the majority of the 75,000 tonnes that are to be delivered by the end of the year. Along with existing delivery commitments, the Company’s core products are all sold forward until December 31, 2009.

On August 11, 2009, the Company reported net income of \$9.6 million or \$0.21 per basic share from revenues of \$58.9 million for the three months period ended June 30, 2009. These results represent an increase of 19% and 41% 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 and six months ended September 30, 2009, compared with the same periods last year.

Table 1 - Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	Fiscal 2010		Fiscal 2009		Fiscal 2008			
	Q2	Q1	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	67,684	58,928	84,953	76,531	78,161	49,681	34,506	24,680
Gross profit	14,349	14,608	18,977	17,313	19,104	12,320	8,256	5,840
Gross profit (% of revenues)	21.2%	24.8%	22.3%	22.6%	24.4%	24.8%	23.9%	23.7%
Selected operating expenses:								
Selling	1,115	660	1,617	1,708	1,738	2,185	1,236	1,175
General and administrative	1,556	1,772	2,614	2,114	2,445	1,785	1,214	909
Stock-based compensation	391	565	556	592	593	804	264	227
Finance costs	364	206	(18)	305	208	84	88	81
Pre-operating costs	56	264	38	128	52	250	100	17
Other income	15	52	51	309	-	131	36	41
Gain on sale of non-operating subsidiary	-	-	-	-	-	99	-	-
Income taxes	1,284	1,635	1,510	824	1,168	675	561	371
Income taxes (% of revenues)	1.9%	2.8%	1.8%	1.1%	1.5%	1.4%	1.6%	1.5%
Effective tax rate (% of income before taxes)	11.8%	14.6%	10.6%	6.5%	8.3%	9.1%	10.9%	10.7%
Net income	9,598	9,558	12,711	11,951	12,870	6,767	4,565	3,100
Net income (% of revenues)	14.2%	16.2%	15.0%	15.6%	16.5%	13.6%	13.2%	12.6%
EBITDA	12,262	12,607	15,296	13,983	14,967	8,222	5,830	3,991
EBITDA (% of revenues)	18.1%	21.4%	18.0%	18.3%	19.1%	16.5%	16.9%	16.2%
Earnings per share (in \$):								
Basic	0.21	0.21	0.28	0.27	0.32	0.16	0.12	0.08
Diluted	0.20	0.20	0.28	0.27	0.31	0.15	0.11	0.08

Table 2 - Results of Operations**Consolidated Results**

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

<i>In thousands of Canadian dollars except per share and percentage data</i>	September 30		Increase (Decrease)	% Increase (Decrease)	September 30		Increase (Decrease)	% Increase (Decrease)
	Q2 2010	Q4 2008			YTD 2010	YTD 2008		
Revenues	67,684	78,161	(10,477)	(13.4%)	126,612	127,842	(1,230)	(1.0%)
Gross profit	14,349	19,104	(4,755)	(24.9%)	28,957	31,424	(2,467)	(7.9%)
Gross profit (% of revenues)	21.2%	24.4%	(3.2%)	(13.1%)	22.9%	24.6%	(1.7%)	(6.9%)
Selling expenses	1,115	1,738	(623)	(35.8%)	1,775	3,924	(2,149)	(54.8%)
Selling expenses (% of revenues)	1.6%	2.2%	(0.6%)	(27.3%)	1.4%	3.1%	(1.7%)	(54.8%)
G & A	1,556	2,445	(889)	(36.4%)	3,328	4,230	(902)	(21.3%)
G & A (% of revenues)	2.3%	3.1%	(0.8%)	(25.8%)	2.6%	3.3%	(0.7%)	(21.2%)
Stock-based compensation	391	593	(202)	(34.1%)	956	1,397	(441)	(31.6%)
Stock-based compensation (% of revenues)	0.6%	0.8%	(0.2%)	(25.0%)	0.8%	1.1%	(0.3%)	(27.3%)
Other income	15	0	15	100.0%	67	104	(37)	(35.6%)
Other income (% of revenues)	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%
Income taxes	1,284	1,168	116	9.9%	2,919	1,843	1,076	58.4%
Income taxes (% of revenues)	1.9%	1.5%	0.4%	26.7%	2.3%	1.4%	0.9%	64.3%
Effective tax rate (% of net income before taxes)	11.8%	8.3%	3.5%	42.2%	13.2%	8.6%	4.6%	53.5%
EBITDA	12,262	14,967	(2,705)	(18.1%)	24,870	23,190	1,680	7.2%
EBITDA (% of revenues)	18.1%	19.1%	(1.0%)	(5.2%)	19.6%	18.1%	1.5%	8.3%
Net income (loss)	9,598	12,871	(3,273)	(25.4%)	19,156	19,639	(483)	(2.5%)
Net income (loss) (% of revenues)	14.2%	16.5%	(2.3%)	(13.9%)	15.1%	15.4%	(0.3%)	(1.9%)
Earnings per share								
Basic	0.21	0.32	(0.11)	(34.4%)	0.41	0.46	(0.05%)	(10.9%)
Diluted	0.20	0.31	(0.11)	(35.5%)	0.41	0.44	(0.03%)	(6.8%)
Weighted average number of common shares outstanding								
Basic	46,459,661	40,813,968			46,459,661	43,165,585		
Diluted	46,931,813	41,947,715			46,918,502	44,771,990		

Table 3 - Reconciliation to Canadian GAAP Net Income

The following table sets out the reconciliation of the Company’s consolidated GAAP net income to non-GAAP earning measure, specifically EBITDA, for the quarter and six months ended September 30, 2009, compared with the same period last year. Management believes that EBITDA is a measure of how efficiently and effectively the Company’s business is running.

<i>In thousands of Canadian dollars</i>	Q2 2010	Q4 2008	YTD 2010	YTD 2008
Net Income	9,598	12,870	19,156	19,639
Add:				
Amortization	1,016	720	2,225	1,417
Interest Income	364	209	570	291
Income Tax Expense	1,284	1,168	2,919	1,843
EBITDA	12,262	14,967	24,870	23,190

Revenues

Revenues were \$67.7 million and \$126.6 million for the quarter and six months ended September 30, 2009, respectively, compared with \$78.2 million and \$127.8 million for the same periods last year, representing a decrease of \$10.5 million (RMB 92.1 million) or 13.4% and \$1.2 million (RMB 71.4 million) or 1.0%, respectively. The decrease in revenue for the quarter and six months ended September 30, 2009 is mainly due to lower selling prices on core and co-products as a result of lower raw material cost per tonne. Average selling price for the quarter and six months ended September 30, 2009 decreased by approximately RMB 1,999 and RMB 1,249 per ton for potassium nitrate and RMB 2,339 and RMB 1,316 per ton for potassium sulphate, respectively, over the same periods last year. The annual run rate for the core products was at 320,000 tonnes as of September 30, 2009, compared with 260,000 tonnes as of September 30, 2008.

During the quarter, Migao sold approximately 20,000 tonnes of lower grade potassium sulphate (lower potassium oxide content) that had very little value added with just some rudimentary processing and packaging. These products were sold to the vegetable farming customers as a strategy to help them reduce their costs.

Revenues for the quarter ended September 30, 2009 increased by \$8.8 million (RMB 76.5 million) or 14.9% compared with the previous quarter ended June 30, 2009. The increased revenue is mainly due to increased production volume as a result of lower level of maintenance shutdowns at most facilities. Increase in production volumes for the quarter ended September 30, 2009 was 41,939 tonnes compared with the previous quarter ended June 30, 2009.

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 following is a summary of the average foreign exchange rates between RMB and Canadian dollars.

Table 4

<i>Average Foreign Exchange Rates</i>	Q2 2010	Q1 2010	Q4 2008	YTD 2010	YTD 2008
RMB to Canadian dollars	0.1607	0.1709	0.1523	0.1658	0.1487
Canadian dollars to RMB	6.2228	5.8514	6.5660	6.0314	6.7250

Revenue increased by \$3.5 million and \$13.4 million as a result of foreign exchange gain for the quarter and six months ended September 30, 2009, respectively, compared to the same periods last year. Revenue for the quarter ended September 30, 2009 decreased by \$4.3 million compared with the previous quarter ended June 30, 2009.

Table 5 - The following is a summary of the Company’s facilities and production capacities as of September 30, 2008 and September 30, 2009.

	Core Product	2008 Annual Capacity (tonnes)	2009 Annual Capacity (tonnes)	Co-Product	2008 Annual Capacity (tonnes)	2009 Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	80,000	Ammonium Chloride	44,800	44,800	December 2003
Guangdong	Potassium Sulphate	100,000	160,000	Hydrochloric Acid	120,000	192,000	December 2004
Liaoning	Potassium Sulphate	40,000	40,000	Hydrochloric Acid	48,000	48,000	December 2005
Changchun	Potassium Sulphate	40,000	40,000	Hydrochloric Acid	48,000	48,000	December 2007
Total		260,000	320,000		260,800	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.

Table 6

Core Product	Quarterly Design Capacity (tonnes)	Volume Produced During the Quarter (tonnes)	Deliveries During the Quarter (tonnes)
Potassium Nitrate	20,000	19,034	19,014
Potassium Sulphate	60,000	89,450	87,447
Total	80,000	108,484	106,461

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 almost all of Migao’s production output.

Gross Profit

Gross profit was \$14.4 million and \$29.0 million for the quarter and six months ended September 30, 2009, respectively, compared to \$19.1 million and \$31.4 million for the same periods last year, representing an decrease of \$4.7 million (or 24.9%) and \$2.4 (or 7.9%), respectively. Gross margin as a percentage of sales for the quarter and six months ended September 30, 2009 decreased by 3.2% to 21.2% (from 24.4%) and by 1.7% to 22.9% (from 24.6%), respectively, compared with the same periods last year. The decrease in gross profit and gross profit percentage were due to lower selling prices as a result of lower potash cost per tonne and the sales of the lower grade potassium sulphate (lower potassium oxide content) with minimum value added.

Gross profit for the quarter ended September 30, 2009 decreased by \$0.3 million (or 1.8%) to \$14.4 million (from \$14.6 million) compared with the previous quarter ended June 30, 2009. Gross margin as a percentage of sales for the quarter ended September 30, 2009 decreased by 3.6% to 21.2% (from 24.8%) compared with the previous quarter ended June 30, 2009. Decrease in gross profit and gross margin were due to slightly lower selling prices and the sales of the lower grade potassium sulphate (lower potassium oxide content) with minimum value added.

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 and six months ended September 30, 2009 decreased by \$0.6 million (or 35.8%) to \$1.1 million (from \$1.7 million) and \$2.1 million (or 54.8%) to \$1.8 million (from \$3.9 million), respectively, compared with the same periods last year. Selling expenditures as a percentage of sales for the quarter and six months ended September 30, 2009 decreased by 0.6% to 1.6% (from 2.2%) and 1.7% to 1.4% (from 3.1%), respectively, compared with the same periods last year.

Selling expenditures for the quarter ended September 30, 2009 increased by \$0.5 million (or 68.9%) to \$1.1 million (from \$0.6 million) compared with the previous quarter ended June 30, 2009. Selling expenditures as a percentage of sales for the quarter ended September 30, 2009 increased by 0.5% to 1.6% (from 1.1%) compared with the previous quarter ended June 30, 2009. The increase was as a result of higher freight-out costs as customers mix changed, so that the Company was responsible for a higher percentage of shipping costs.

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 and six months ended September 30, 2009 decreased by \$0.8 million (or 36.4%) to \$1.6 million (from \$2.4 million) and \$0.9 million (or 21.3%) to \$3.3 million

(from \$4.2 million), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and six months ended September 30, 2009 decreased by 0.8% to 2.3% (from 3.1%) and 0.7% to 2.6% (from 3.3%), respectively, compared with the same periods last year.

General and administrative expenditures for the quarter ended September 30, 2009 decreased by \$0.2 million (or 12.2%) to \$1.6 million (from \$1.8 million) compared with the previous quarter ended June 30, 2009. General and administrative expenditures as a percentage of sales for the quarter ended September 30, 2009 decreased by 0.7% to 2.3% (from 3.0%) compared with the previous quarter ended June 30, 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. General and administrative expenditures in future quarters is expected to increase as a result of internal audit, continued internal control reviews, and conversion to IFRS.

Income Taxes

Income taxes for the quarter and six months ended September 30, 2009 increased by \$0.1 million (or 9.9%) to \$1.3 million (from \$1.2 million) and \$1.1 million (or 58.4%) to \$2.9 million (from \$1.8 million), respectively, compared with the same periods last year. Income taxes as a percentage of sales for the quarter and six months ended September 30, 2009 increased by 0.4% to 1.9% (from 1.5%) and by 0.9% to 2.3% (from 1.4%), respectively, compared with the same periods last year.

Income taxes for the quarter ended September 30, 2009 decreased by \$0.3 million (or 21.5%) to \$1.3 million (from \$1.6 million) compared with the previous quarter ended June 30, 2009 due to decrease of income before income taxes. Income taxes as a percentage of sales for the quarter ended September 30, 2009 decreased by 0.9% to 1.9% (from 2.8%) compared with the previous quarter ended June 30, 2009.

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.

Earnings

Net earnings for the quarter and six months ended September 30, 2009 decreased by \$3.3 million (or 25.4%) to \$9.6 million (from \$12.9 million) and \$0.5 million (or 2.5%) to \$19.1 million (from \$19.6 million), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and six months ended September 30, 2009 decreased by 2.3% to 14.2% (from 16.5%) and by 0.3% to 15.1%

(from 15.4%), respectively, compared with the same periods last year. Decrease in net earnings and net earnings percentage were due to lower selling prices as a result of lower potash cost per tonne, higher tax rates, and increased finance costs.

Net earnings for the quarter ended September 30, 2009 remained approximately the same at \$9.6 million compared with the previous quarter ended June 30, 2009. Net earnings as a percentage of sales for the quarter ended September 30, 2009 decreased by 2.0% to 14.2% (from 16.2%) compared with the previous quarter ended June 30, 2009. Decrease in net earnings percentage was due to slightly lower selling prices, higher selling expenses, and increased finance costs.

Earnings per Share

Earnings per share was \$0.21 (\$0.20 fully diluted) and \$0.41 (\$0.41 fully diluted) for the quarter and six months ended September 30, 2009, respectively, compared with \$0.32 (\$0.31 fully diluted) and \$0.46 (\$0.44 fully diluted) for the same periods last year, representing a decrease of \$0.11 (or 34.4%) and \$0.05 (or 10.9%), respectively. Decrease in earnings per share was due to lower selling prices as a result of lower potash cost per tonne and a higher number of shares outstanding.

Earnings per share for the quarter ended September 30, 2009 remained the same at 0.21 (\$0.20 fully diluted) compared with the previous quarter ended June 30, 2009.

The total stock-based compensation expense for the quarter and six months ended September 30, 2009 was \$0.4 million and \$1.0 million, respectively, resulting in a decrease of \$0.01 (\$0.01 fully diluted) and \$0.02 (\$0.02 fully diluted) on earnings per share.

EBITDA (please see table 3)

EBITDA for the quarter and six months ended September 30, 2009 decreased by \$2.7 million (or 18.1%) to \$12.3 million (from \$15.0 million) and increased by \$1.7 million (or 7.2%) to \$24.9 million (from \$23.2 million), respectively, compared with the same periods last year. EBITDA as a percentage of sales for the quarter and six months ended September 30, 2009 decreased by 1.0% to 18.1% (from 19.1%) and increased by 1.5% to 19.6% (from 18.1%), respectively, compared with the same periods last year.

EBITDA for the quarter ended September 30, 2009 decreased by \$0.3 million (or 2.7%) to \$12.3 million (from \$12.6 million) compared with the previous quarter ended June 30 2009. EBITDA as a percentage of sales for the quarter ended September 30, 2009 decreased by 3.3% to 18.1% (from 21.4%) compared with the previous quarter ended June 30, 2009. Decrease in EBITDA and EBITDA percentage were due to slightly lower selling prices and higher selling expenses.

Table 7 - Liquidity and Capital Resources

(in thousands of Canadian dollars except for ratios)

	September 30, 2009	March 31, 2009
Current Ratio	3.10 : 1	5.40 : 1
Cash and Cash Equivalents	36,242	41,688
Working Capital	136,318	146,210
Total Assets	289,877	275,192
Total Debt	65,166	33,639
Total Equity	224,711	241,553
Debt to Equity Ratio	0.29 : 1	0.14 : 1
Debt to Equity Percentage	29%	14%

The Canadian dollar/RMB foreign exchange rate used to translate the assets and liabilities was 6.3694 at September 30, 2009, compared to 5.4230 at March 31, 2009, representing 17.5% depreciation in RMB. For the quarter ended September 30, 2009, net assets would have been 17.5% higher if using the same rate as at the end of the period ended March 31, 2009.

Cash Position

Cash and cash equivalents totalled \$36.2 million as of September 30, 2009, representing a decrease of \$5.5 million and an increase of \$32.9 million compared with the balances as of March 31, 2009 and June 30, 2009, respectively. The increase for the three months ended September 30, 2009 is a result of \$18.8 million cash inflow from operations and \$25.3 million net proceeds from bank loans, offset by \$1.9 million foreign exchange loss, \$4.6 million increase in restricted cash, and \$4.7 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 and budget production level. As a result of long standing and strong credit relationships, China based banks have offered Migao working capital lines of credit of approximately RMB 260 million and project financing lines of credit of approximately RMB 136 million.

Working Capital

Working capital was \$136.3 million as of September 30, 2009, representing a decrease of \$9.9 million and \$5.8 million compared with balances as of March 31, 2009 and June 30, 2009, respectively. This latter decrease is primarily attributable to \$32.9 million increase in cash and cash equivalents, \$4.4 increase in restricted cash, \$47.1 million increase in prepayments, deposits and other receivables, \$0.1 million increase in net due from related parties, and offset by \$40.7 million decrease in accounts receivable, \$19.9 million

decrease in inventory, \$3.9 million increase in accounts payable and accrued liabilities and notes payables, \$2.4 million increase in customer deposits, and \$23.4 million increase in bank loan.

Restricted cash increased by \$4.4 million or 398.5% at September 30, 2009 compared to the balance at June 30, 2009. Restricted cash increased due to an increase in notes payables, resulting in banks requiring additional cash deposits as pledge for notes payables.

Prepayments, deposits and other receivables increased by \$47.1 million or 102.6% at September 30, 2009 compared to the balance at June 30, 2009. Prepayments, deposits and other receivables increased substantially due to increased raw material purchases as a result of the Company’s desire to lock in potash pricing and supply during an uncertain period of potash negotiations between Russia and China. Prepayments, deposits and other receivables also increased due to investments in capital assets and construction mainly for the expansion of Sichuan Migao, Guangdong Migao and Liaoning Migao.

Accounts receivable decreased by \$40.7 million or 66.6% at September 30, 2009 compared to the balance at June 30, 2009. Accounts receivable decreased as a result of the Company ceasing to give customers credit terms that were previously granted as a purchase incentive to maintain margin and demands. The Company’s year to date average days of sales outstanding (DSO) at September 30, 2009 and June 30, 2009 were 55 and 63 days respectively. The Company had no bad debt expense in the quarter ended September 30, 2009 and June 30, 2009.

Total inventory decreased by \$19.9 million or 30.7% at September 30, 2009 compared to the balance at June 30, 2009. Inventory decreased due to timing of raw material purchases and deliveries in a period of decreasing potash pricing.

Accounts payable and accrued liabilities and notes payables increased by \$3.9 million or 40.7% at September 30, 2009 compared to the balance at June 30, 2009 due to the management’s efforts to better manage the working capital in current market conditions.

Customer deposits increased by \$2.4 million or 75.3% at September 30, 2009 compared to the balance at June 30, 2009. Customer deposits increased as a result of more customers paying in advance after the company ceased to extend credit terms to long term customers and the addition of new co-product customers.

Bank loans increase by \$23.4 million or 126.0% at September 30, 2009 compared to the balance at June 30, 2009 due to additional bank financing taken on during the quarter to provide the Company with the funding for future expansions, strategic raw material purchases, and other opportunities.

At the end of the period, the Company had \$33.2 million (70,146 tonnes) of potassium chloride inventory with an average delivered price of \$474 per tonne, of which all were on hand. In addition, during the quarter, the Company sold 19,014 tonnes of potassium nitrate and 87,447 tonnes of potassium sulphate, and at the end of the period, the Company had \$8.7 million (58,656 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 \$49.6 million at September 30, 2009 compared with \$52.2 million and \$54.2 million as of March 31, 2009 and June 30, 2009, respectively.

Construction in progress was \$12.3 million at September 30, 2009, compared with \$16.0 million and \$12.8 million as of March 31, 2009 and June 30, 2009, respectively. 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 \$20.5 million at September 30, 2009 compared with \$25.1 million and \$22.2 million as of March 31, 2009 and June 30, 2009, respectively. 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 \$22.8 million exist as of September 30, 2009. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$0.9 million exist as of September 30, 2009. They were entered into in the normal course of business.

The following table summarizes our contractual obligations (in thousands of Canadian dollars) as at September 30, 2009, 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.

Table 8

	2010	2011	2012 and thereafter
Operating lease	\$ 72	\$ 73	36

Report on Controls***Disclosure Controls and Procedures***

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at September 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 September 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. This situation should improve as Canada and China convert to IFRS.

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. KPMG LLP commenced their work during the quarter ended September 30, 2009 with a review of the corporate office and Guangdong Migao.

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 November 11, 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 3.23 years. 1,014,999 of these stock options are exercisable as of November 11, 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 September 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 and the cost of these services being immaterial, the value of these contributed services were not recognized in the financial statements. The services provided by LYEDC are administrative services such as secretarial, language translations, travel arrangements in China, and raw materials co-ordination. LYEDC has also provided corporate guarantees on \$6.3 million of the Company’s short-term bank loans outstanding as of September 30, 2009.

In addition, the Company paid land transfer taxes and business incorporation fees of \$127,212 on behalf of Sichuan SQM – Migao Chemical Fertilizer Co., Ltd. (“SQM JV”). The fees were paid to facilitate the Company in the future sales of one of its land use rights to SQM JV. The Company also paid back \$29,171 to Beijing Wei De Sen (“BWDS”) for the cost of motor vehicles it previously purchased on behalf of the Company. The motor vehicles were purchased to facilitate the pre-operating activities of one of the Company’s non-operating subsidiaries. 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. BWDS and LYEDC are 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 September 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 changes in the Company’s raw material costs. China’s government has responded to volatile 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 third 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 is substantially completed and full production should begin in the third quarter of fiscal 2010. 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 during 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 during calendar 2010.

International Expansion

The Company is currently reviewing and performing due diligence on a business plan to expand outside of China. The area of expansion would be in Southern Asia, near China’s borders. This expansion outside of China is to open up international markets without the penalty of the current 105% export tax. The expansion plan, once approved by Migao’s Board of Directors, may result in prioritizing Southeast Asia expansion over later stage planned expansion projects in China. Migao has limited project management resources to execute all expansion plans. Future expansions will have to be prioritized based on profitability and payback.

Capital Expenditure Summary

For the quarter and six months ended September 30, 2009, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$5.2 million and \$9.2 million, respectively. For the year ended March 31, 2010, the capital expenditure is budgeted for approximately \$30 million.

Table 9 - The following is a summary of the Company’s facilities and expected production capacities as of November 11, 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	December 2009
Liaoning	Sulphuric Acid	120,000	January 2010

Revenue and Margin Guidance

It is anticipated that revenues for fiscal 2010 will be in the range of \$230 million to \$260 million. This forecast is based on the assumptions that the Company will be producing at full capacity, potassium chloride prices will be in the range of USD \$350 and USD \$400 per tonne, and prevailing foreign exchange rate will be in the range of 5.9 and 6.2.

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 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 November 11, 2009.

Forward guidance is reviewed and approved by the Audit Committee and the Board of Directors at each quarter end and year end meetings. Currently, with the volatility of the Canadian dollar and potash pricing, the Company may cease to give revenue range guidance in future MD&As.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company’s unaudited Consolidated Financial Statements for the three and six months periods ended September 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 commenced its conversion project during Q-1 Fiscal 2010 and established a formal project governance structure. An IFRS Steering Committee was formed to monitor the progress and critical decisions

in the transition to IFRS. The Steering Committee consists of senior financial and accounting management. Members of the Steering Committee have attended various level of educational training on the conversion to IFRS. In addition an external advisor has been engaged to assist with the conversion. Regular reporting is provided by the Steering Committee to the Audit Committee of the Board of Directors. This reporting will continue until full implementation of IFRS is completed with the release of the March 31st 2012 Audited Financial statements.

The IFRS conversion project consists of three phases: Diagnostic, Solution Development and Implementation and Execution. During Q-2 Fiscal 2010 we completed the Diagnostic phase, which involved a high level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes. This assessment has provided insight as to the most significant areas of difference applicable to the company. This assessment included property and equipment, leases and land use rights.

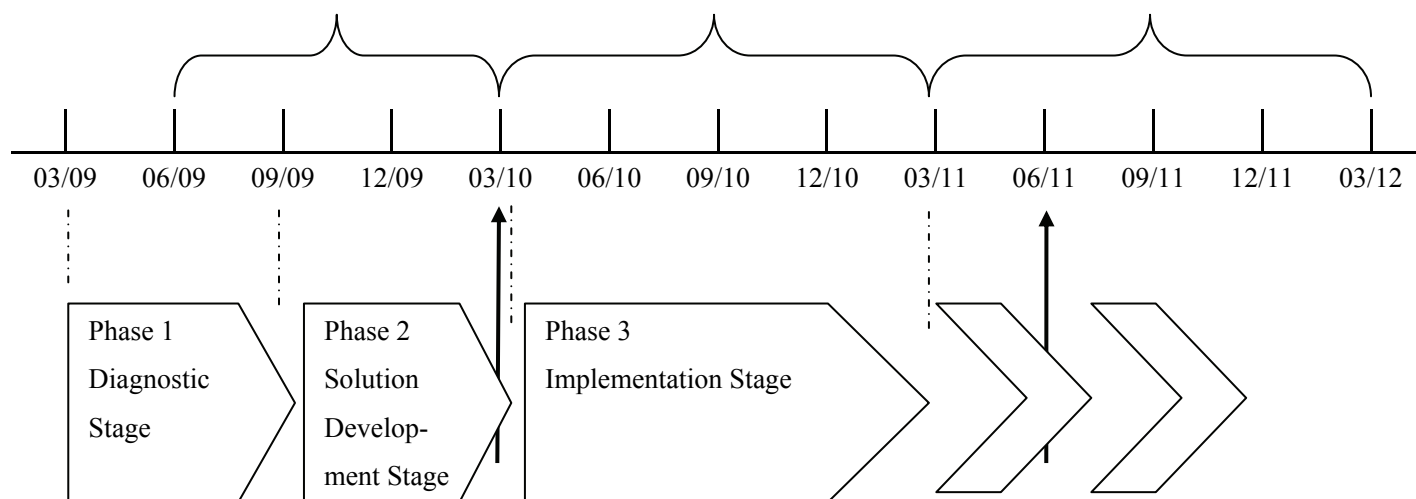
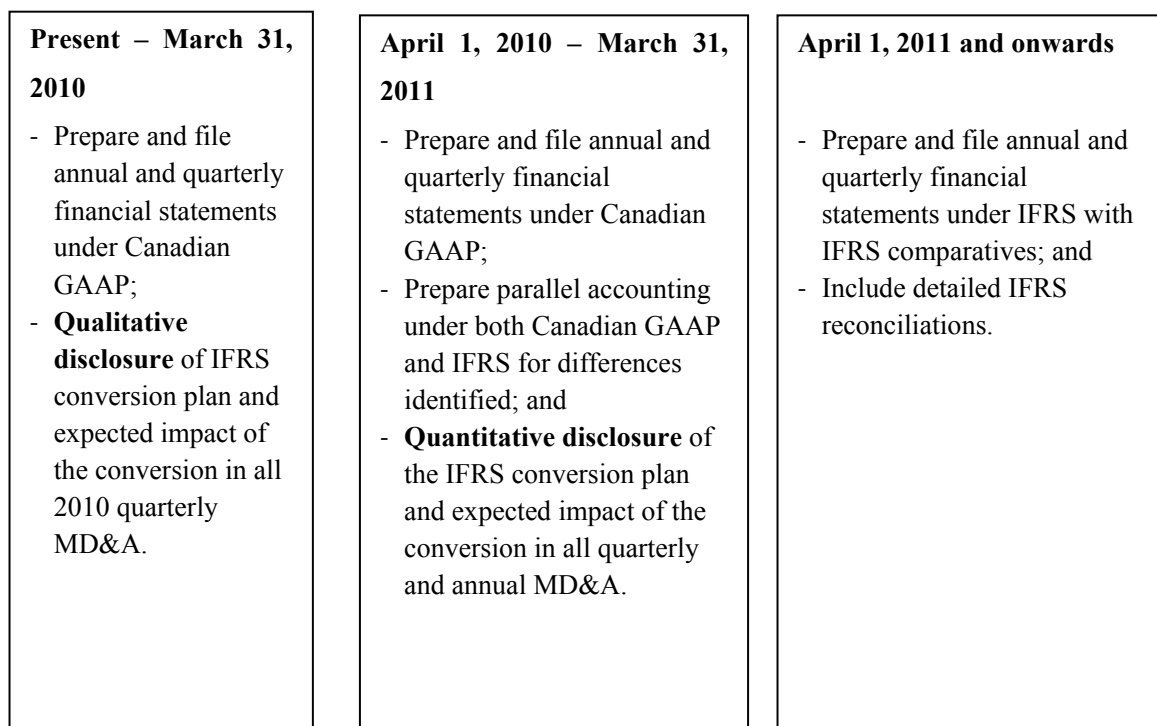
The Steering Committee has an IFRS transition plan that will include a timetable for assessing the impact on systems, Internal Controls over financial reporting and business activities. During Q-3 Fiscal 2010 the solution development phase of the project will be worked on, so that options and recommendations can be developed. As part of this process in-depth reviews of accounting policy impacts, as well as the associated impacts of the IFRS transition to the business. The target is to complete the solution development phase by the end of Q-4 Fiscal 2010.

The Steering Committee will monitor standards development as issued by the International Accounting Standards board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of the IFRS adoption.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the reported financial position and results of operations. The Solution development phase is currently in process and the Company has yet to finalize the accounting policy choices and IFRS exemptions. At this time the Company is unable to quantify the impact of IFRS on the financial statements.

Changes in regulations or economic conditions at the date of change over or throughout the project could result in changes to the transition plan.

IFRS Project Timeline



Completed

April 1, 2010 Transition Date
 Opening IFRS balance sheet with reconciliation

June 30, 2011
 First IFRS financial statements for Q1 (with transition disclosures)

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.