

# **Migao Corporation**

## **Management’s Discussion and Analysis**

**Year ended March 31, 2011**

June 8, 2011

The following is Management’s Discussion and Analysis (“MD&A”) of the financial condition of Migao Corporation (the “Company” or “Migao”) and its financial performance for the year ended March 31, 2011. This MD&A should be read in conjunction with the audited Consolidated Financial Statements and related notes as at and for the years ended March 31, 2011 and 2010. 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](http://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 (“C\$”) unless otherwise noted (tabular amounts are in thousands of C\$) and prepared in accordance with Canadian Generally Accepted Accounting Principles.

At March 31, 2011, the Company had 52,890,661 common shares outstanding. At June 8, 2011, the Company has 52,890,661 common shares outstanding.

## **Forward-Looking Information**

This document includes forward-looking statements within the meaning of certain securities laws, including the “safe harbour” provisions of the Securities Act (Ontario) and other provincial securities laws in Canada. These forward-looking statements include, among others, statements with respect to our objectives and goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words “may”, “will”, “could”, “should”, “would”, “suspect”, “outlook”, “believe”, “plan”, “anticipate”, “estimate”, “expect”, “intend”, “forecast”, “objective”, and “continue” (or the negative or grammatical variations thereof), and words and expressions of similar meaning, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results, performance or achievements may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on forward-looking statements as a number of important factors, many of which are beyond our control, could cause actual results, performance or achievements to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors that relate to our company include, but are not limited to: risks related to raw materials; execution of the business plan; expansion plans; dependence on key personnel; key relationships; dependence on key customers; dependence on key suppliers; competition; market factors and volatility of commodity prices; environmental risks and hazards; operating risks; proprietary

rights; infrastructure; future capital requirements; technical substitution; exchange rate fluctuations; insurance; foreign operations; tobacco industry considerations; weather conditions and natural disasters; control by management; seasonality; dividends; conflicts of interest; global financial conditions; and the implementation of the Labour Contract Law in the people’s Republic of China in 2008. In addition to the foregoing risk factors, there are also risks related to doing business in China which include, but are not limited to: state ownership; government sector intervention; foreign investment; repatriation of profit and currency conversion; tax; shareholders’ rights and enforcement of judgements; developing legal system; protection of intellectual property rights; permits and business licenses; appropriation; and availability of land. Should one or more of these factors materialize, or should our estimates or underlying assumptions prove incorrect, actual results, performance or achievements may vary materially from those described in forward-looking statements.

We caution that the foregoing list of important factors that may affect our future results, performance or achievements is not exhaustive. When reviewing our forward-looking statements, readers should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found under the “Risk Factors” sections in our Annual Information Form, under “Risk Factors” and elsewhere in the following MD&A and elsewhere in our filings with Canadian securities regulatory authorities. Except as required by Canadian securities laws, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. We cannot assure readers that actual results, performance and achievements will be consistent with these forward-looking statements, and the differences may be material. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

## **Overview**

Migao, through its wholly-owned operating subsidiaries (referred to herein as “Sichuan Migao”, “Guangdong Migao”, “Liaoning Migao”, “Shanghai Migao”, “Changchun Migao”, “Tianjin Migao”, “Zunyi Migao”), and through its 50% ownership of SQM JV, owns land use rights and 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), specialty compound fertilizers, granulated potash, and standard potash. The products are for 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 relative to imports 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 Year**

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

On March 15, 2011, the Company announced an agreement with Potash Export Company for the supply of up to 500,000 tonnes of potassium chloride per year for ten years. As part of the terms of the agreement, the Company will prepay USD \$100 million, with further payments to be negotiated and advanced prior to the initial potash delivery in January 2013. The Company will receive preferential pricing on up to 500,000 tonnes of potash per year for 10 years.

On February 21, 2011, Migao Chemical (Zunyi) Co., Ltd. (“Zunyi Migao”) was incorporated. Guangdong Migao holds 100% of the issued and outstanding capital of Zunyi Migao. The subsidiary will be a 100,000 tonnes per year specialty compound fertilizer facility. The facility will be built in two modules with the initial 50,000 tonnes module scheduled for completion by the end of this calendar year.

On February 10, 2011, the Company reported net income of \$8.3 million or \$0.16 per basic share from revenues of \$64.6 million for the three months period ended December 31, 2010. These results represent a decrease of 3.6% and 4.5% over revenue and net income of the same period in 2009, respectively.

On January 19, 2011, the Company announced the commencement of production at the newly constructed 40,000 tonne per year potassium nitrate joint venture facility in Sichuan Province. The facility is jointly owned by Migao and Sociedad Quimica y Minera de Chile S.A. (“SQM”). The joint venture will distribute any exports of potassium nitrate produced by Migao or the joint venture, as well as any imports of SQM’s potassium nitrate to China. In addition, the Company also announced that construction of a 40,000 tonne per year potassium

sulphate facility at the Company’s wholly owned subsidiary, Shanghai Migao, is scheduled to be completed during the first quarter of calendar 2011, with production commencing in March 2011.

On January 5, 2011, the Company announced that it will be constructing a new 100,000 tonne per year specialty compound fertilizer facility in Zunyi, Guizhou Province. The new facility will be built in two modules with the initial 50,000 tonne module scheduled for completion by the end of calendar 2011. Land use rights previously held in Zunyi have been exchanged for new land use rights in a more desirable manufacturing location for this new project.

On November 12, 2010, the Company reported net income of \$8.3 million or \$0.16 per basic share from revenues of \$68.5 million for the three months period ended September 30, 2010. These results represent an increase of 1.1% and a decrease of 13.5% over revenue and net income of the same period in 2009, respectively.

On August 10, 2010, the Company reported net income of \$8.9 million or \$0.17 per basic share from revenues of \$66.3 million for the three months period ended June 30, 2010. These results represent an increase of 12% and a decrease of 7% over revenue and net income of the same period in 2009, respectively.

On June 29, 2010, the Company announced that it will be constructing an additional 40,000 tonne per year potassium sulphate fertilizer production facility at its existing Changchun Migao location. The new production facility is scheduled for completion in the second half of calendar 2011.

On June 3, 2010, the Company reported net income of \$38.3 million or \$0.80 per basic share from revenues of \$269.1 million for the year ended March 31, 2010.

On April 25, 2010, the Company began the construction of its Shanghai Migao potassium sulphate facility.

## **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. For fiscal 2011, the Company exceeded this range for potassium sulphate and related co-product with gross margin of 26.2%. The higher gross margin is a result of favourable potassium chloride purchases made over the last twelve months and strong demand for core and co-products. The inputs into the Company’s production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its raw material costs, variable production costs, and customer contract negotiations.

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

### Measurement

Below under “Quarterly Results”, “Selected Annual Results”, and “Results of Operations” are three tables the Company uses to assess performance. The first table presents the Company’s consolidated results for the last eight quarters. The second table provides the Company’s selected consolidated results for the three periods ended March 31, 2011, 2010 and 2009. The last table sets out the Company’s consolidated results for the quarter and year ended March 31, 2011, 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 2011				Fiscal 2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Revenues</b>	<b>117,624</b>	64,604	68,455	66,256	75,461	67,034	67,684	58,928
<b>Gross profit</b>	<b>20,568</b>	16,556	16,286	17,499	18,090	15,607	14,349	14,608
<b>Gross profit (% of revenues)</b>	<b>17.5%</b>	25.6%	23.8%	26.4%	24.0%	23.3%	21.2%	24.8%
<b>Selected operating expenses:</b>								
<b>Selling</b>	<b>3,064</b>	2,426	2,065	2,366	2,537	1,762	1,115	660
<b>General and administrative</b>	<b>3,975</b>	2,574	2,290	2,736	2,694	2,804	1,556	1,772
<b>Stock-based compensation</b>	<b>249</b>	261	261	298	371	391	391	565
<b>Finance costs</b>	<b>91</b>	631	654	750	640	523	364	206
<b>Pre-operating costs</b>	<b>313</b>	756	364	246	57	114	56	264
<b>Other income</b>	<b>26</b>	188	59	229	212	57	15	52
<b>Income taxes</b>	<b>3,994</b>	1,838	2,318	2,465	1,469	1,364	1,284	1,635
<b>Income taxes (% of revenues)</b>	<b>3.4%</b>	2.8%	3.4%	3.7%	1.9%	2.0%	1.9%	2.8%
<b>Effective tax rate (% of income before taxes)</b>	<b>30.9%</b>	18.1%	21.8%	21.6%	12.3%	13.5%	11.8%	14.6%
<b>Net income</b>	<b>8,920</b>	8,314	8,298	8,921	10,426	8,706	9,598	9,558
<b>Net income (% of revenues)</b>	<b>7.6%</b>	12.9%	12.1%	13.5%	13.8%	13.0%	14.2%	16.2%
<b>EBITDA</b>	<b>14,266</b>	11,962	12,448	13,277	13,499	11,618	12,262	12,607
<b>EBITDA (% of revenues)</b>	<b>12.1%</b>	18.5%	18.2%	20.0%	17.9%	17.3%	18.1%	21.4%
<b>Earnings per share (in \$):</b>								
<b>Basic</b>	<b>0.17</b>	0.16	0.16	0.17	0.20	0.18	0.21	0.21
<b>Diluted</b>	<b>0.17</b>	0.16	0.16	0.17	0.20	0.18	0.20	0.20

**Table 2 - Selected Annual Results**

<i>In thousands of Canadian dollars except per share and percentage data</i>	<b>Year ended March 31, 2011</b>	<b>Year ended March 31, 2010</b>	<b>Six months ended March 31, 2009</b>
<b>Revenues</b>	<b>316,937</b>	269,107	161,484
<b>Net income (loss)</b>	<b>34,453</b>	38,288	24,662
<b>Earnings per share</b>			
<b>Basic</b>	<b>0.66</b>	0.80	0.56
<b>Diluted</b>	<b>0.65</b>	0.79	0.55
<b>Total Assets</b>	<b>387,669</b>	343,976	275,192
<b>Total Current Liabilities</b>	<b>83,270</b>	75,319	33,264
<b>Total Long Term Bank Loans</b>	-	-	-
<b>Dividends</b>	-	-	-

**Table 3 - Results of Operations***Consolidated Results*

The following table sets out the Company’s consolidated results for the quarter and year ended March 31, 2011, compared with the same periods last year.

<i>In thousands of Canadian dollars except per share and percentage data</i>	<b>Q4 2011</b>	<b>Q4 2010</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>	<b>YTD 2011</b>	<b>YTD 2010</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Revenues</b>	117,624	75,461	42,163	55.9%	316,937	269,107	47,830	17.8%
<b>Gross profit</b>	20,568	18,090	2,478	13.7%	70,907	62,654	8,253	13.2%
<b>Gross profit (% of revenues)</b>	17.5%	24.0%	(6.5%)	(27.1%)	22.4%	23.3%	(0.9%)	(3.9%)
<b>Selling expenses</b>	3,064	2,537	527	20.8%	9,921	6,074	3,847	63.3%
<b>Selling expenses (% of revenues)</b>	2.6%	3.4%	(0.8%)	(23.5%)	3.1%	2.3%	0.8%	34.8%
<b>G &amp; A</b>	3,975	2,694	1,281	47.6%	11,575	8,826	2,749	31.1%
<b>G &amp; A (% of revenues)</b>	3.4%	3.6%	(0.2%)	(5.6%)	3.7%	3.3%	0.4%	12.1%
<b>Stock-based compensation</b>	249	371	(122)	(32.9%)	1,069	1,719	(650)	(37.8%)
<b>Stock-based compensation (% of revenues)</b>	0.2%	0.5%	(0.3%)	(60.0%)	0.3%	0.6%	(0.3%)	(50.0%)
<b>Other income</b>	26	212	(186)	(87.7%)	502	335	167	49.9%
<b>Other income (% of revenues)</b>	0.0%	0.3%	(0.3%)	(100.0%)	0.2%	0.1%	0.1%	100.0%
<b>Income taxes</b>	3,994	1,469	2,525	171.9%	10,615	5,751	4,864	84.6%
<b>Income taxes (% of revenues)</b>	3.4%	1.9%	1.5%	78.9%	3.3%	2.1%	1.2%	57.1%
<b>Effective tax rate (% of net income before taxes)</b>	30.9%	12.3%	18.6%	151.2%	23.6%	13.1%	10.5%	80.2%
<b>EBITDA</b>	14,266	13,499	767	5.7%	51,953	49,984	1,969	3.9%
<b>EBITDA (% of revenues)</b>	12.1%	17.9%	(5.8%)	(32.4%)	16.4%	18.6%	(2.2%)	(11.8%)
<b>Net income (loss)</b>	8,920	10,426	(1,506)	(14.4%)	34,453	38,288	(3,835)	(10.0%)
<b>Net income (loss) (% of revenues)</b>	7.6%	13.8%	(6.2%)	(44.9%)	10.9%	14.2%	(3.3%)	(23.2%)
<b>Earnings per share</b>								
<b>Basic</b>	0.17	0.20	(0.03)	(15.0%)	0.66	0.80	(0.14)	(17.5%)
<b>Diluted</b>	0.17	0.20	(0.03)	(15.0%)	0.65	0.79	(0.14)	(17.7%)
<b>Weighted average number of common shares outstanding</b>								
<b>Basic</b>	52,566,605	52,140,661			52,275,538	48,125,050		
<b>Diluted</b>	52,848,022	52,609,249			52,671,921	48,596,359		

**Table 4 - 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 year ended March 31, 2011, compared with the same periods 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>	<b>Q4 2011</b>	<b>Q4 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>Net Income</b>	8,920	10,426	34,453	38,288
<b>Add:</b>				
<b>Amortization</b>	1,261	964	4,759	4,213
<b>Interest Expense</b>	91	640	2,126	1,732
<b>Income Tax Expense</b>	3,994	1,469	10,615	5,751
<b>EBITDA</b>	<b>14,266</b>	<b>13,499</b>	<b>51,953</b>	<b>49,984</b>

**Revenues****Table 5**

<i>Average Foreign Exchange Rates</i>	<b>Q4 2011</b>	<b>Q3 2011</b>	<b>Q4 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>RMB to Canadian dollars</b>	0.1498	0.1521	0.1525	0.1515	0.1597
<b>Canadian dollars to RMB</b>	6.6741	6.5746	6.5574	6.5999	6.2617

**Table 6**

<i>Revenues (in thousands)</i>	<b>Q4 2011</b>	<b>Q3 2011</b>	<b>Q4 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>Revenues in RMB</b>	785,029	424,652	494,826	2,095,585	1,694,219
<b>Revenues in CDNS</b>	117,624	64,604	75,461	316,937	269,107

Revenues were \$117.6 million and \$316.9 million for the quarter and year ended March 31, 2011, respectively, compared with \$75.5 million and \$269.1 million for the same periods last year, representing an increase of \$42.1million (RMB 290.2 million) or 55.9% and \$47.8 million (RMB 401.4 million) or 17.8%, respectively. The increase in revenue for the quarter and year ended March 31, 2011 is mainly due to higher selling prices on potassium sulphate and higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The high level of potassium chloride sales was due to market demand and the Company’s desire to reduce raw potassium chloride levels as a result of its long term potassium chloride supply arrangement with Potash Export Company. Average selling price was RMB 4,765 and RMB 4,838 per tonne for potassium nitrate and RMB 3,385 and RMB 3,059 per tonne for potassium sulphate for the quarter and year ended March 31, 2011, respectively. Average selling price for the quarter ended March 31, 2011 decreased by approximately RMB 33 per tonne for potassium nitrate and increased by RMB 734 per tonne for potassium sulphate over the same periods last year. The increase in potassium sulphate prices are primarily as a result of

increased global potassium chloride prices. Average selling price for the year ended March 31, 2011 decreased by approximately RMB 145 per tonne for potassium nitrate and increased by RMB 89 per tonne for potassium sulphate over the same periods last year. Production volume for potassium sulphate and potassium nitrate for the quarter and year ended March 31, 2011 increased by 1,834 tonnes and decreased by 3,983 tonnes, respectively, over the same periods last year. The increase in production volume for the quarter ended March 31, 2011 over the same period last year is mainly due to the commencement of production at the SQM joint venture and Shanghai Migao. The decrease in production volume for the year ended March 31, 2011 over the same period last year is primarily due to Sichuan Migao experiencing production delays as a result of temporary natural gas shortage (on an annual basis, the facility achieved nameplate capacity) and reduced deliveries of lower grade potassium sulphate. The annual run rate for the core products was at 380,000 tonnes as of March 31, 2011, compared with 320,000 tonnes as of March 31, 2010.

During the quarter, Migao did not produce or sell any lower grade potassium sulphate (lower potassium oxide content) due to higher demand for higher grade potassium sulphate compared with 6,580 tonnes of deliveries for the same period last year. These lower grade products were sold to new vegetable farming customers in fiscal 2010 as a strategy to help them control costs.

Revenues for the quarter ended March 31, 2011 increased by \$53.0 million (RMB 360.4 million) or 82.1% compared with the previous quarter ended December 31, 2010. The increased revenue is mainly due to higher selling prices on potassium sulphate and higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The high level of potassium chloride sales was due to market demand and the Company’s desire to reduce raw potassium chloride levels as a result of its long term potassium chloride supply arrangement with Potash Export Company. Average selling price for the quarter ended March 31, 2011 decreased by approximately RMB 695 per tonne for potassium nitrate and increased by RMB 211 per tonne for potassium sulphate compared with the previous quarter ended December 31, 2010 due to market conditions. Production volume for potassium sulphate and potassium nitrate for the quarter ended March 31, 2011 increased by 3,210 tonnes compared with the previous quarter ended December 31, 2010 as a result of the commencement of production at the SQM joint venture and Shanghai Migao.

Migao earns all of its revenues in Chinese Renminbi (“RMB”). Accordingly, reported revenues will fluctuate with changes in the exchange rate of RMB to C\$. Table 4 is a summary of the average foreign exchange rates between RMB and C\$. Table 5 is a summary of revenues in RMB and C\$.

Revenue for the quarter and year ended March 31, 2011 decreased by \$2.1 million and \$17.1 million, respectively, as a result of foreign exchange compared to the same periods last year. Revenues for the quarter ended March 31, 2011 decreased by \$1.8 million compared with the previous quarter ended December 31, 2010 due to foreign exchange.

**Table 7** - The following is a summary of the Company’s facilities and production capacities as of March 31, 2011.

	<b>Core Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Co-Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Production Commencement</b>
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
SQM JV	Potassium Nitrate	20,000	Ammonium Chloride	11,200	January 2011
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
Shanghai	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	January 2011
<b>Total</b>		<b>380,000</b>		<b>392,000</b>	

	<b>Other Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Production Commencement</b>
Sichuan	Compound Fertilizer	100,000	January 2010
Liaoning	Sulphuric Acid	120,000	TBD based on Sulphuric acid pricing

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

**Table 8** - The following is a summary of the Company’s productions and sales of its core products for the quarter and year ended March 31, 2011.

Quarter ended March 31, 2011:

<b>Core Product</b>	<b>Quarterly Design Capacity (tonnes)</b>	<b>Volume Produced During the Quarter (tonnes)</b>	<b>Deliveries During the Quarter (tonnes)</b>
Potassium Nitrate <sup>1</sup>	25,000	16,301	12,812
Potassium Sulphate <sup>1</sup>	70,000	66,518	74,935
Potassium Sulphate (lower grade)	N/A	Nil	Nil
Potassium Chloride and Value Added Potassium Chloride	N/A	Nil	131,370
<b>Total</b>	<b>95,000</b>	<b>82,819</b>	<b>219,117</b>

<b>Other Product</b>	<b>Quarterly Design Capacity (tonnes)</b>	<b>Volume Produced During the Quarter (tonnes)</b>	<b>Deliveries During the Quarter (tonnes)</b>
Compound Fertilizer	25,000	29,942	28,861

Year ended March 31, 2011:

<b>Core Product</b>	<b>Quarterly Design Capacity (tonnes)</b>	<b>Volume Produced During the Year (tonnes)</b>	<b>Deliveries During the Year (tonnes)</b>
Potassium Nitrate <sup>1</sup>	100,000	84,719	81,141
Potassium Sulphate <sup>1</sup>	280,000	247,540	250,865
Potassium Sulphate (lower grade)	N/A	43,079	43,079
Potassium Chloride and Value Added		3,931	169,323
Potassium Chloride	N/A		
<b>Total</b>	<b>380,000</b>	<b>379,269</b>	<b>544,408</b>

<b>Other Product</b>	<b>Quarterly Design Capacity (tonnes)</b>	<b>Volume Produced During the Quarter (tonnes)</b>	<b>Deliveries During the Quarter (tonnes)</b>
Compound Fertilizer	100,000	56,550	57,202

<sup>1</sup>Includes new capacity brought online during Q4 fiscal 2011.

### ***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 \$20.6 million and \$70.9 million for the quarter and year ended March 31, 2011, respectively, compared to \$18.1 million and \$62.7 million for the same periods last year, representing an increase of \$2.5 million (or 13.7%) and \$8.3 million (or 13.2%), respectively. Gross margin as a percentage of sales for the quarter and year ended March 31, 2011 decreased by 6.5% to 17.5% (from 24.0%) and 0.9% to 22.4% (from 23.3%), respectively, compared with the same periods last year. The increase in gross profit for the quarter and year ended March 31, 2011 were mainly due to higher average selling prices of potassium sulphate and higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride. The decrease in gross margin for the quarter and year ended March 31, 2011 was mainly due to significantly higher direct sales of potassium chloride without any value added during the quarter. In addition, gross profit and gross margin as a percentage of sales for the quarter ended March 31, 2011 were negatively impacted by the start-ups of the Shanghai and SQM joint venture facilities. Both facilities were in start-up mode and not at full efficient capacity for the entire quarter.

Gross profit for the quarter ended March 31, 2011 increased by \$4.0 million (or 24.2%) to \$20.6 million (from \$16.6 million) compared with the previous quarter ended December 31, 2010. Gross margin as a percentage of

sales for the quarter ended March 31, 2011 decreased by 8.1% to 17.5% (from 25.6%) compared with the previous quarter ended December 31, 2010. The increase in gross profit compared with the previous quarter is due to higher selling prices on potassium sulphate, higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The decrease in gross margin as a percentage of sales compared with the previous quarter is due to significantly higher sales volume of lower margin potassium chloride during the quarter. In addition, during the quarter, gross profit and gross margin as a percentage of sales were negatively impacted by the start-ups of the Shanghai and SQM joint venture facilities. Both facilities were in start-up mode and not at full efficient capacity for the entire quarter.

**Table 9** - The following is a summary of the Company’s gross margin by products for the quarter and year ended March 31, 2011.

<b>Core Product</b>	<b>Q4 2011</b>	<b>F2011</b>
Potassium Nitrate <sup>1</sup>	26.2%	22.5%
Potassium Sulphate <sup>1</sup>	26.6%	26.2%
Compound	22.9%	19.1%
Potassium Chloride	12.4%	15.0%

<sup>1</sup>Includes co-products

### ***Selling Expenditures***

Selling expenditures for the quarter and year ended March 31, 2011 increased by \$0.6 million (or 20.8%) to \$3.1 million (from \$2.5 million) and \$3.8 million (or 63.3%) to \$9.9 million (from \$6.1 million), respectively, compared with the same periods last year. Selling expenditures as a percentage of sales for the quarter and year ended March 31, 2011 decreased by 0.8% to 2.6% (from 3.4%) and increased by 0.8% to 3.1% (from 2.3%), respectively, compared with the same periods last year.

Selling expenditures for the quarter ended March 31, 2011 increased by \$0.7 million (or 26.3%) to \$3.1 million (from \$2.4 million) compared with the previous quarter ended December 31, 2010. Selling expenditures as a percentage of sales for the quarter ended March 31, 2011 decreased by 1.2% to 2.6% (from 3.8%) compared with the previous quarter ended December 31, 2010.

The increases in selling expenditures and selling expenditure as a percentage of sales are mainly as a result of higher freight-out costs as customer 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. For the quarter ended March 31, 2011, selling expenditures also include selling expenses for the Shanghai and SQM joint venture facilities.

***General and Administrative Expenditures***

General and administrative expenditures for the quarter and year ended March 31, 2011 increased by \$1.3 million (or 47.6%) to \$4.0 million (from \$2.7 million) and \$2.8 million (or 31.1%) to \$11.6 million (from \$8.8 million), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and year ended March 31, 2011 decreased by 0.2% to 3.4% (from 3.6%) and increased by 0.4% to 3.7% (from 3.3%), respectively, compared with the same periods last year.

General and administrative expenditures have increased compared to prior periods as a result of two new facilities now in production and continued spending on domestic and international growth.

General and administrative expenditures for the quarter ended March 31, 2011 increased by \$1.4 million (or 54.4%) to \$4.0 million (from \$2.6 million) compared with the previous quarter ended December 31, 2010. General and administrative expenditures as a percentage of sales for the quarter ended March 31, 2011 decreased by 0.6% to 3.4% (from 4.0%) compared with the previous quarter ended December 31, 2010.

General and administrative expenses have increased as a result of costs associated with international and China based expansion and investor relations. For the quarter ended March 31, 2011, general and administrative expenses also include expenses for the Shanghai and SQM joint venture facilities.

General and administrative expenditures include finance staff, 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 year over year are expected to increase as a result of internal audit, continued internal control reviews, investor relations, conversion to IFRS, and costs associated with international expansion.

***Income Taxes***

Income taxes for the quarter and year ended March 31, 2011 increased by \$2.5 million (or 171.9%) to \$4.0 million (from \$1.5 million) and \$4.8 million (or 84.6%) to \$10.6 million (from \$5.8 million), respectively, compared with the same periods last year. Income taxes as a percentage of sales for the quarter and year ended March 31, 2011 increased by 1.5% to 3.4% (from 1.9%) and by 1.2% to 3.3% (from 2.1%), respectively, compared with the same periods last year. Effective tax rate for the quarter and year ended March 31, 2011 increased by 18.6% to 30.9% (from 12.3%) and by 10.5% to 23.6% (from 13.1%), respectively, compared with the same periods last year.

Income taxes for the quarter ended March 31, 2011 increased by \$2.2 million (or 117.3%) to \$4.0 million (from \$1.8 million) compared with the previous quarter ended December 31, 2010. Income taxes as a percentage of sales for the quarter ended March 31, 2011 increased by 0.6% to 3.4% (from 2.8%) compared with the previous

quarter ended December 31, 2010. Effective tax rate for the quarter ended March 31, 2011 increased by 12.8% to 30.9% (from 18.1%) compared to the previous quarter ended December 31, 2010.

Income tax has increased as some of the operating subsidiaries are experiencing higher tax rates as they are coming to the end of their Exempt Two, Reduced Three favourable tax treatment period. In addition, certain preproduction costs for new facilities in China and corporate and international expansion costs are currently not tax deductible in China nor able to be benefited in Canada due to lack of revenue.

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 or 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.

At March 31, 2011, the Company has approximately \$14.2 million of non-capital loss carry-forwards in Canada. The utilization of the losses is uncertain therefore, a valuation allowance has been applied and no future income tax asset is set up for these losses.

### ***Earnings***

Net earnings for the quarter and year ended March 31, 2011 decreased by \$1.5 million (or 14.4%) to \$8.9 million (from \$10.4 million) and \$3.8 million (or 10.0%) to \$34.5 million (from \$38.3 million), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and year ended March 31, 2011 decreased by 6.2% to 7.6% (from 13.8%) and by 3.3% to 10.9% (from 14.2%), respectively, compared with the same periods last year. The decreases in net earnings and net earnings as a percentage of sales are mainly due to significantly higher direct sales of lower margin potassium chloride and higher effective tax rates experienced at some of the operating facilities. Net earnings were also impacted by start-up and new project facilities. For the quarter and year ended March 31, 2011, the impact to net income was \$1.1 million and \$2.5 million, respectively, compared to \$0.1 million and \$0.5 million, respectively, for the same periods last year.

Net earnings for the quarter ended March 31, 2011 increased by \$0.6 million (or 7.3%) to \$8.9 million (from \$8.3 million) compared with the previous quarter ended December 31, 2010. Net earnings as a percentage of sales for the quarter ended March 31, 2011 decreased by 5.3% to 7.6% (from 12.9%) compared with the previous quarter ended December 31, 2010. The increase in net earnings is due to higher selling prices on potassium sulphate, higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The decrease in net earnings as a percentage of sales is mainly due to significantly higher direct sales of lower margin potassium chloride and higher effective tax rates experienced at some of the operating facilities during the quarter.

***Earnings per Share***

Earnings per share was \$0.17 (\$0.17 fully diluted) and \$0.66 (\$0.65 fully diluted) for the quarter and year ended March 31, 2011, respectively, compared with \$0.20 (\$0.20 fully diluted) and \$0.80 (\$0.79 fully diluted) for the same periods last year, representing a decrease of \$0.03 (or 15.0%) and \$0.14 (or 17.5%), respectively. The decrease in earnings per share is due to higher effective tax rates compared to the same periods last year and net losses at start-up and new project facilities. For the quarter and year ended March 31, 2011, the impact to earnings per share as a result of losses at start-up and new project facilities was \$0.02 and \$0.05, respectively, compared to \$Nil and \$0.01, respectively, for the same periods last year.

In addition, on December 10, 2009, the Company completed a bought deal public offering of 5,681,000 common shares priced at \$7.10 per share. As a result of the offering, the Company’s weighted average number of common shares outstanding is higher than the prior year quarters, which contributes to the decrease in earnings per share.

Earnings per share for the quarter ended March 31, 2011 increased by \$0.01 (or 6.3%) to \$0.17 (from \$0.16) compared with the previous quarter ended December 31, 2010. The increase in earnings per share compared to the previous quarter was due to higher selling prices on potassium sulphate, higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers.

The total stock-based compensation expense for the quarter and year ended March 31, 2011 was \$0.3 million and \$1.1 million, respectively, resulting in a decrease of \$nil and \$0.02 (\$0.02 fully diluted) on earnings per share.

***EBITDA (please see table 1 & 4)***

EBITDA for the quarter and year ended March 31, 2011 increased by \$0.8 million (or 5.7%) to \$14.3 million (from \$13.5 million) and \$2.0 million (or 3.9%) to \$52.0 million (from \$50.0 million), respectively, compared with the same periods last year. EBITDA as a percentage of sales for the quarter and year ended March 31, 2010 decreased by 5.8% to 12.1% (from 17.9%) and 2.2% to 16.4% (from 18.6%), respectively, compared with the same periods last year. The increase in EBITDA for the quarter and year ended March 31, 2011 was mainly due to higher average selling prices of potassium sulphate and higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The decrease in EBITDA percentage for the quarter and year ended March 31, 2011 was due to higher sales volume of lower margin potassium chloride and net losses at start-up and new project facilities.

EBITDA for the quarter ended March 31, 2011 increased by \$2.4 million (or 19.3%) to \$14.3 million (from \$11.9 million) compared with the previous quarter ended December 31, 2010. EBITDA as a percentage of sales for the quarter ended March 31, 2011 decreased by 6.4% to 12.1% (from 18.5%) compared with the previous quarter ended December 31, 2010. The increase in EBITDA compared to the previous quarter was due to higher selling prices of potassium sulphate, higher sales volumes of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. The decrease in EBITDA percentage compared with the

previous quarter is due to higher sales volume of lower margin potassium chloride and net losses at start-up and new project facilities.

### ***Income Tax Rates***

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

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

Guangdong Migao was exempt from income tax for the calendar years 2005 and 2006, and started to pay income tax at 12% (reduced from the normal 24%) from the beginning of calendar 2007 until the end of calendar 2008 and 12.5% (reduced from the normal 25%) for calendar 2009. Beginning calendar 2010, it started to pay the normal income tax rate of 25%.

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

Changchun Migao received full exemptions from income tax starting calendar years 2008 until the end of calendar 2009, and has started to pay income tax at 12.5% (reduced from the normal 25%) from the beginning of 2010 through 2012. Beginning calendar 2013, it will start to pay the normal income tax rate of 25%.

Shanghai Migao is expected to receive 50% income tax exemption for the years ending December 31, 2011 and 2012.

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

Tax losses within the Canadian corporate office are not currently tax benefited. The Company, along with its tax advisors, have developed and are implementing a tax plan that will allow the Company to benefit any such tax losses in the near future.

**Table 10** - The following is a step analysis of the Company’s effective tax rate for the year ended March 31, 2011.

	Q4 2011	F2011
Profitable PRC Subsidiaries	19.7%	17.2%
Start-up PRC Subsidiaries	0.0%	0.9%
Corporate Entities	2.5%	2.2%
Future Income Taxes	8.7%	3.3%
<b>Total</b>	<b>30.9%</b>	<b>23.6%</b>

### **Table 11 - Liquidity and Capital Resources**

(in thousands of Canadian dollars except for ratios)

	March 31, 2011	March 31, 2010
<b>Current Ratio</b>	2.39 : 1	3.52 : 1
<b>Cash</b>	26,007	60,221
<b>Net Cash<sup>1</sup></b>	(20,991)	18,791
<b>Working Capital</b>	116,085	189,451
<b>Total Assets</b>	387,669	343,976
<b>Total Debt</b>	83,326	75,470
<b>Total Equity</b>	304,343	268,506
<b>Long Term Bank Debt to Equity Ratio</b>	0 : 1	0 : 1

<sup>1</sup> Cash and cash equivalents less bank and other loans (excluding transaction costs)

The Canadian dollar/RMB foreign exchange rate used to translate the assets and liabilities was 6.7340 at March 31, 2011, compared to 6.7204 at March 31, 2010, representing 0.2% depreciation in RMB. For the quarter ended March 31, 2011, net assets would have been 0.2% higher if using the same rate as at the end of the period ended March 31, 2010.

#### **Cash Position**

Cash and cash equivalents totalled \$26.0 million as of March 31, 2011, representing a decrease of \$34.2 million and \$49.8 million compared with the balances as of March 31, 2010 and December 31, 2010, respectively. The decrease for the quarter ended March 31, 2011 is a result of \$1.9 million proceeds from exercise of stock options, \$0.9 million net proceeds from bank loans, offset by \$42.9 million cash outflow from operations (increase in non-cash working capital including the long term deposit of 94.9 million for potassium chloride inventory), \$1.7 million foreign exchange loss, and \$8.0 million invested in capital assets, construction mainly for the expansion of Changchun Migao, and land use rights.

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 budgeted production levels. As a result of long standing and strong credit relationships, Shanghai Pudong development bank has provided Migao working capital lines of credit of approximately RMB 180 million and project financing lines of credit of approximately RMB 137 million.

### ***Working Capital***

Working capital was \$116.1 million as of March 31, 2011, representing a decrease of \$73.4 million and \$90.3 million compared with balances as of March 31, 2010 and December 31, 2010, respectively. This latter decrease is primarily attributable to \$14.8 million increase in accounts receivable, \$0.4 million increase in restricted cash, \$0.4 million increase in net due from joint venture partner, \$8.2 million decrease in accounts payable and accrued liabilities and notes payables, and offset by \$49.8 million decrease in cash and cash equivalents, \$43.4 million decrease in prepayments, deposits and other assets, \$1.1 million decrease in net future income tax assets, \$16.8 million decrease in inventory, \$1.8 million increase in customer deposits, \$0.2 million increase in loans, and \$1.0 million increase in net income taxes payable.

Accounts receivable increase by \$14.8 million or 47.1% at March 31, 2011 compared to the balance at December 31, 2010. Accounts receivable increased as a result of the Company expanding its customer base by selling to large new customers who didn’t make advance payments during the quarter. The Company’s year to date average days of sales outstanding (DSO) at March 31, 2011 and December 31, 2010 were 48 and 35 days respectively. The Company had no bad debt expense in the quarter ended March 31, 2011.

Restricted cash increased by \$0.4 million or 4.3% at March 31, 2011 compared to the balance at December 31, 2010. Restricted cash increased due to banks requiring additional cash deposits as pledge for notes payables.

Accounts payable and accrued liabilities and notes payables decreased by \$8.2 million or 28.8% at March 31, 2011 compared to the balance at December 31, 2010 due to the Company having sufficient funding for working capital purposes.

Prepayments, deposits and other assets decreased by \$43.4 million or 42.9% at March 31, 2011 compared to the balance at December 31, 2010. Prepayments, deposits and other receivables decreased substantially due to decreased investments in capital assets and construction with the commencement of production at the SQM joint venture and Shanghai Migao. In addition, during the quarter, a prepayment (US\$100.0 million) was made to Potash Export Company in accordance with a potassium chloride purchase contract that the Company signed with Potash Export Company. As the prepayment will be utilized to settle the payable for potassium chloride purchases over a 5 year period starting in calendar 2013, it has been classified as long term and not reflected as part of the current prepayment balance.

Total inventory decreased by \$16.8 million or 23.0% at March 31, 2011 compared to the balance at December 31, 2010. Inventory decreased due to the timing of raw material purchases and deliveries.

At the end of the period, the Company had \$46.2 million (112,079 tonnes) of potassium chloride inventory with an average delivered price of \$413 per tonne, of which 28,354 tonnes were on hand and the remainder in transit. In addition, during the quarter, the Company sold 12,812 tonnes of potassium nitrate, 74,935 tonnes of potassium sulphate, 131,370 tonnes of potassium chloride, and at the end of the period, the Company had \$5.9 million (35,061 tonnes) of finished goods inventory on hand, including co-products.

Customer deposits increased by \$1.8 million or 21.1% at March 31, 2011 compared to the balance at December 31, 2010. This increase is as a result of new contracts for deliveries in future quarters.

Loans increased by \$0.2 million or 0.4% at March 31, 2011 compared to the balance at December 31, 2010 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.

#### ***Plant and Equipment, Construction in Progress, Land Use Rights***

Plant and equipment net of accumulated depreciation and amortization was \$66.2 million at March 31, 2011 compared with \$55.7 million and \$63.8 million as of March 31, 2010 and December 31, 2010, respectively.

Construction in progress was \$5.6 million at March 31, 2011, compared with \$2.3 million and \$6.9 million as of March 31, 2010 and December 31, 2010, respectively. These balances consist mainly of the construction costs attributable to new construction at Shanghai Migao and additional potassium sulphate capacity at Changchun and Sichuan Migao.

Land use rights net of accumulated amortization was \$19.5 million at March 31, 2011 compared with \$19.4 million and \$19.4 million as of March 31, 2010 and December 31, 2010, respectively.

#### ***Contractual Obligation Summary***

- Purchase contracts denominated in RMB for raw materials and supplies in the amount of approximately \$60.1 million exist as of March 31, 2011. In addition, during fiscal 2011, the Company signed a contract with OAO Silvinit (“Silvinit”) and committed to purchase 260,000 tonnes of potassium chloride in the period from January 1, 2011 to December 31, 2011. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$8.1 million exist as of March 31, 2011. They were entered into in the normal course of business.
- Commitment to contribute cash in return for interest in the SQM JV in the amount of \$4.4 million exists as of March 31, 2011. The joint venture contract was entered into in the normal course of business.

The following table summarizes our contractual obligations (in thousands of C\$) as at March 31, 2011, 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 12**

	2012	2013	2014	2015 and thereafter
<b>Operating lease</b>	<b>\$ 105</b>	<b>\$ 105</b>	<b>\$ 105</b>	<b>\$53</b>

## **Report on Controls**

### *Disclosure Controls and Procedures*

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at March 31, 2011 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. 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 new 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 the four operating facilities. During the quarter ended March 31, 2010, KPMG LLP performed testing at the corporate office and Sichuan Migao and made various recommendations for improvements. The Company has implemented the recommendations 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. During the quarter ended March 31, 2011, KPMG LLP reviewed controls and performed testing at the corporate office and China based facilities.

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 that are prescribed and required by the PRC tax authorities. This situation should improve as Canada and China convert to IFRS.

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 June 8, 2011, there were:

- 52,890,661 common shares outstanding.
- 945,000 stock options outstanding, with exercise prices of between \$6.38 to \$9.93, and weighted average remaining life of 4.38 years. 773,334 of these stock options are exercisable as of June 8, 2011.

## **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 March 31, 2011, Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”) contributed administrative services to the Company and because the value of these services was immaterial, these contributed services were not recognized in the consolidated financial statements. The services provided by LYEDC are administrative services such as secretarial, language translations, travel arrangements in China, and raw materials co-ordination.

During the year ended March 31, 2011, the Company also purchased potassium chloride from SQM of \$6.6 million. 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.

LYEDC is controlled by an officer and director of Migao.

## **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 directly 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 its full production nameplate 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 deliveries of products from the compounding facility occurred during the fourth quarter of fiscal 2010. The upgraded potassium nitrate and the specialty compound fertilizer facility allow the Company to increase its competitive advantage.

### Guangdong Migao

Guangdong Migao is currently operating at full production capacity of 160,000 tonnes of potassium sulphate per year. Guangdong Migao is the Company's largest facility. This facility also has the ability to produce lower grade potassium sulphate that results in a higher output compared to the regular design capacity.

Changchun Migao

Construction of an additional 40,000 tonnes of annual potassium sulphate capacity is scheduled for completion in the second half of calendar 2011. The foundation for the expansion is completed with construction of building and equipment currently in progress. The expanded production capacity brings the total annual production capacity of the Changchun Migao facility to 80,000 tonnes of potassium sulphate.

Liaoning Migao

On April 2, 2008, the Company announced plans to build a 120,000 tonne per annum sulphuric acid production facility. Construction is completed. Sulphuric acid pricing in the last several months has been at a level that has resulted in the Company being able to purchase the product at a price that is lower than the manufacturing cost. With prices and internal demand for sulphuric acid increased, it is anticipated that the plant will commence production in the fall of calendar 2011. Sulphuric acid from this facility will be consumed by Liaoning Migao and nearby Changchun Migao for the production of potassium sulphate.

Joint Venture with SQM

Construction of a potassium nitrate facility, jointly owned 50/50 by the Company and Chile-based SQM, with 40,000 tonnes of initial annual capacity, was completed during the last quarter of calendar 2010 and production commenced in January 2011.

Shanghai Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity in Shanghai has been completed and production began in the first quarter of calendar 2011. Construction of an additional 40,000 tonnes of annual potassium sulphate capacity is scheduled for completion in the first quarter of calendar 2012. This phase one construction also includes foundations and infrastructures for the additional 40,000 tonnes of capacity anticipated during calendar 2012.

Zunyi Migao

The company has experienced delays in the construction of the 40,000 tonne potassium sulphate facility as a result of delays in the construction of a public road connected with the construction site. As a result of these delays Migao has changed the direction and location of the Zunyi Migao project. The new location has an increased amount of land and is situated with 800 metres of a rail line. The Zunyi project will now be a 100,000 tonnes per year specialty compound fertilizer facility. The facility will be built in two modules with the initial 50,000 tonnes module scheduled for completion by the end of calendar 2011. The Zunyi facility will incorporate processing improvements learned from the Sichuan compounding facility. The new location with increased amount of land will accommodate further expansion beyond the planned 100,000 tonne facility.

Tianjin Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity will be constructed in the city of Tianjin commencing sometime after calendar 2011. The board has approved the construction of 200,000 square feet of warehouse space on the current land use right location. Construction is to start in Q2 of fiscal 2012. This warehouse operation is being set up to handle distribution of products such as inbound potash and outbound industrial potassium nitrate. The Tianjin property is located near a deep water port.

International Expansion

The Company is currently reviewing and performing due diligence to expand outside of China. This expansion outside of China is to open up international markets without the penalty of the current 105% export tax. On March 31, 2010, Migao Singapore was incorporated. The Singapore subsidiary was established to become the base for the Company’s international expansion starting in South East Asia. 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 year ended March 31, 2011, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$7.5 million and \$19.1 million, respectively. For the year ended March 31, 2012, the capital expenditure is budgeted for approximately \$25 million.

**Table 13** - The following is a summary of the Company’s facilities and expected production capacities as of June 8, 2011.

	<b>Core Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Co-Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Production Commencement</b>
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
SQM JV	Potassium Nitrate	20,000	Ammonium Chloride	11,200	January 2011
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
Shanghai	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	January 2011
<b>Total</b>		<b>380,000</b>		<b>392,000</b>	

	<b>Other Products</b>	<b>Annual Capacity (tonnes)</b>	<b>Production Commencement</b>
Sichuan	Compound Fertilizer	100,000	January 2010
Liaoning	Sulphuric Acid	120,000	TBD based on Sulphuric acid pricing

Margin Guidance

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. For the year ended March 31, 2011, the Company has achieved a gross profit of 22.4%. 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 June 8, 2011.

Forward guidance is reviewed and approved by the Audit Committee and the Board of Directors at each quarter end and year end meetings.

## **Critical Accounting Policies**

This MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the year ended March 31, 2011 and the notes thereto. To aid in understanding the Company’s financial reporting, its critical accounting policies are described below. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

### ***Basis of presentation***

The consolidated financial statements have been prepared by management in accordance with Canadian GAAP and include the accounts of the Company and its subsidiaries and the proportionate share of the accounts of SQM JV in the PRC. All intercompany balances and transactions have been eliminated upon consolidation.

### ***Cash equivalents***

The Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

### ***Prepayments and deposits***

The Company makes prepayments to suppliers to facilitate its purchasing arrangements. These payments are recognized as prepayments when made and recognized as goods and services when received. Prepayments and deposits on assets that are long term in nature are recorded as long term prepayments and deposits.

### ***Inventory***

Raw materials and finished goods are valued at the lower of cost and net realizable value. The cost of finished goods comprises direct materials and, where applicable, direct labour costs and overhead costs. Cost is

determined using the weighted-average method. Net realizable value represents the anticipated selling price less all further costs for distribution.

### ***Plant and equipment***

Plant and equipment are recorded at cost. Amortization is provided over the expected useful lives of the plant and equipment with a 10% residual value using the following methods and annual rates:

Building and improvements	-	10 to 20 years straight line
Machinery and equipment	-	10 years straight line
Vehicles	-	5 years straight line
Office equipment	-	5 years straight line

### ***Construction in progress***

Construction in progress represents buildings and equipment under construction and is stated at cost. Construction in progress is not amortized until such time as the assets are completed and put into operational use.

### ***Land use rights***

Land use rights are recorded at cost and are amortized over 50 years, which are the terms of the land use rights set by the Chinese government.

### ***Impairment of long-lived assets***

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

### ***Income taxes***

The Company uses the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on income tax assets and liabilities is reflected in operations in the period in which the change occurs. Valuation allowances are established when necessary to reduce future tax assets to the amount expected to be realized.

### ***Earnings per share***

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed giving effect to the potential dilution that would occur if

securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method, except when their effect would be anti-dilutive. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

### ***Revenue recognition***

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

### ***Pre-operating costs***

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

### ***Stock-based compensation***

The Company has in effect a Stock Option Plan (“the Plan”). Stock options awarded to non-employees and employees are accounted for at fair value on a graded vesting basis. Fair value is calculated using the Black-Scholes model and any consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

### ***Government assistance***

The Company makes periodic applications for financial assistance under available government incentive programs including interest subsidies and tax credits or value-added tax refunds related to purchases of domestic equipments. The Company recognizes government assistance when it is approved by the government. Government interest subsidies are recorded as a reduction of finance costs when the expense is incurred. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

### ***Foreign exchange***

The Company's functional currency is the Canadian dollar (“C\$”), the China based Subsidiaries and SQM JV’s functional currency is the Chinese Renminbi (“RMB”), H.K. Migao’s functional currency is the C\$ but has transactions that are dominated in U.S. dollar, and Migao Singapore’s functional currency is the C\$, but has transactions that are dominated in Singapore dollar (“S\$”). The accounts of the Subsidiaries and SQM JV are translated into C\$ using the current rate method. Under this method, assets and liabilities are translated at the year end rate of exchange. Revenues and expenses are translated into C\$ at the average rate of exchange for the period. Exchange gains and losses from foreign currency translations are recorded in shareholders' equity as accumulated other comprehensive income. H.K. Migao’s U.S. dollar transactions have been translated into C\$ at the exchange rates prevailing on the date of transactions. H.K. Migao’s U.S. dollar denominated monetary assets and liabilities are translated into C\$ at the exchange rate prevailing on the balance sheet date. Migao Singapore’s

S\$ transactions have been translated into C\$ at the exchange rates prevailing on the date of transactions. Migao Singapore’s S\$ denominated monetary assets and liabilities are translated into C\$ at the exchange rate prevailing on the balance sheet date. Exchange gains and losses have been included in the determination of net income.

### ***Financial Instruments***

The Company has classified its cash and cash equivalents and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable, other receivables, due from related parties, and due from joint venture partner are classified as loans and receivables, which are measured at amortized cost. Loans, accounts payable and accrued liabilities, notes payable and due to joint venture partner are classified as other financial liabilities, which are measured at amortized cost.

The three levels of fair value hierarchy under Section 3862 are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

With respect to all of its financial instruments (except for due from related parties), the Company estimates that the fair value of these financial instruments approximates the carrying values at March 31, 2011 and 2010, and as such they are classified within Level 1 of the fair value hierarchy. The fair value of the amount due from related parties is not readily determinable due to the related party nature of the advances.

### ***Measurement uncertainty***

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of plant and equipment and land use rights, valuation allowances for receivables, inventories and inventory related assets including prepayments, cost allocation between finished goods, and future income taxes and stock-based compensation. Actual results could differ from those estimates.

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

***Joint Venture***

The Company’s 50% interest in the SQM JV, which is subject to joint control, is consolidated on a proportionate basis whereby the Company includes in these consolidated financial statements its proportionate share of the assets, liabilities, revenues, and expenses of the joint venture.

***Transaction Costs***

The Company’s transaction costs that are directly attributable to the bank debt financing are amortized using the effective interest method over the life of the debt. The unamortized portion of the costs is shown as a reduction of bank loans.

***Comparative Figures***

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

***Recent Accounting Pronouncements******International Financial Reporting Standards (“IFRS”)***

In 2011, Canadian reporting issuers will start to report under International Financial Reporting Standards (“IFRS”), rather than under Canadian GAAP. The Company is required to adopt IFRS for the year beginning April 1, 2011, including providing IFRS-compliant comparative information for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but significant differences exist in many aspects of recognition, measurement and disclosures. This is therefore a major project for the Company, and could materially affect how it reports its financial position and results of operations.

The Company commenced its conversion project during Q-1 Fiscal 2010 and established a formal project governance structure. It created an IFRS Steering Committee, consisting of the Audit Committee chairman and of senior financial and accounting management, to monitor progress toward and critical decisions made about the transition to IFRS. Members of the Steering Committee have received various levels of training on IFRS. In addition, the Company engaged an external advisor. The Steering Committee reports regularly to the Audit Committee of the Board of Directors, and this will continue until IFRS reporting has been fully implemented (with the release of the March 31, 2012 audited financial statements).

The IFRS conversion project consists of three phases: Diagnostic; Solution Development; Implementation and Execution. During Q2 fiscal 2010 we completed the Diagnostic phase, involving a high level preliminary assessment of the differences between Canadian GAAP and IFRS and their potential implications for accounting and reporting processes. During Q4 fiscal 2010 we substantially completed the solution development phase, involving a more detailed examination of each potential area of difference, and of the related impact on information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and other business activities as well as discussions with our auditors regarding potential areas of differences. The Implementation and Execution phase is in progress and will continue into 2012.

To date we have substantially completed implementation requirements reflecting management’s accounting

choices, developed financial statements including draft note disclosures, assessed and selected key accounting policy decisions. We are still in the process of finalizing our opening balance sheet as at April 1, 2010, preparing IFRS quarterly comparative figures for 2011, implementing system changes and preparing other transitional reconciliations and disclosure requirements. During the fourth quarter, our primary focus was on the finalization of opening balance adjustments and preparation of quarterly comparative figures for 2011. We also continued our IFRS training for key employees and senior management of the Company.

In most respects, the Company will apply IFRS retrospectively, as if its requirements had always been in place. However, IFRS 1 *First-time Adoption of International Financial Reporting Standards* makes various choices available to first-time adopters. On the basis of the work described above, the Company has made some preliminary decisions about these choices:

**Foreign currency** - The Company does not currently expect to identify material differences relating to foreign currency translation. However, IFRS 1 allows first-time adopters to elect that the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. If this election is selected, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRS, but includes later translation differences. The election, among other things, avoids potential considerable complexity in adjusting historical exchange calculations to reflect changes made under IFRS to the carrying values of other assets and liabilities. Migao has decided to make the election and reset the cumulative differences to zero at April 1, 2010.

**Plant and equipment** - IFRS contains greater specificity on various matters relating to cost and depreciation of property, plant and equipment; for example, it more explicitly requires separately depreciating each of an item’s component parts that is significant in relation to the item’s total cost. However, IFRS 1 also allows first-time adopters a choice of measuring selected items of property, plant and equipment at their fair value at the transition date, and using this fair value as a deemed cost at that date for subsequent accounting purposes. Migao believes the existing carrying values of its plant and equipment appropriately reflect the requirements of IFRS, and does not currently intend to adjust these carrying values at the transition date.

Based on the analysis performed to date, we do not expect the impact of componentization or our other policy choices related to plant and equipment to have a material effect on our consolidated financial statements on transition to IFRS, at April 1, 2010. We are in the process of completing our analysis for periods after April 1, 2010.

**Share-based payment** - IFRS 1 also allows that a first-time adopter need not apply IFRS 2 Share-based Payment to equity instruments granted after November 7, 2002 if those equity instruments vested before the date of transition to IFRSs. The Company does not believe the transition to IFRS will require any material amendments to its previous accounting for stock options and other share-based payments, and will not select this option.

**Borrowing costs** - IFRS requires capitalizing borrowing costs that are directly attributable to acquiring, constructing or producing a “qualifying asset.” For Migao, this will entail capitalizing interest and other borrowing costs incurred on its various construction projects. However, Migao can choose under IFRS 1 to apply this policy only to qualifying assets for which the commencement date (as defined) is on or after the date of transition to IFRS. Migao has decided to select this option, and therefore there will be no adjustments with regards to borrowing costs to the opening retained earnings as at April 1, 2010.

A weighted-average capitalization rate based on our outstanding third-party debt will be used to calculate the amount of borrowing costs to capitalize on a qualifying asset. Our current accounting policy under Canadian GAAP is not to capitalize interest on qualifying assets. As a result of the requirement to capitalize borrowing costs under IFRS, we expect that we will capitalize more borrowing costs in future periods. We expect this to reduce our interest expense during the capitalization period and increase our depreciation expense in periods after the asset is available for use.

The other area carrying the most significant potential impact for the Company is as follows:

**Impairment of long-lived assets** - Under Canadian GAAP, when the Company determines that an asset group’s carrying amount exceeds its undiscounted estimated future cash flows, it recognizes an impairment loss, measured as the amount by which that carrying amount exceeds the asset group’s fair value. The approach under IFRS does not have an initial step based on undiscounted cash flows. Where any indication of an impairment loss exists, the IFRS approach compares carrying amounts to recoverable amounts, based on the higher of fair value less costs to sell and value in use (a discounted cash flow measure). This methodology could result in recognizing additional asset impairments on transition to IFRS.

In addition, the “cash-generating units” into which assets are organized for impairment-testing purposes under IFRS might be identified at a lower level than the asset groups identified under Canadian GAAP, possibly also leading to additional asset impairments under IFRS. On the other hand, unlike Canadian GAAP, IFRS allows reversing previously-recognized impairment losses where the circumstances have changed. The Company has not recognized any impairment losses to date, and does not currently expect to recognize any losses as a result of the transition to IFRS.

**Accounting for joint ventures** - Under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method. IFRS currently provides a policy choice to either apply proportionate consolidation or the equity method of accounting to joint ventures including jointly controlled entities, operations and assets. There is a change to IFRS that would only allow the equity method of accounting for jointly controlled entities. This change is effective on January 1, 2013. The potential change to IFRS will impact our current accounting treatment of proportionate consolidation of Sichuan SQM – Migao Chemical Fertilizer Co., Ltd., when the new IFRS requirements become effective for our financial statements. We expect to continue to apply our existing accounting policy on transition to IFRS to proportionately consolidate jointly controlled entities until the new change is effective. As a result, we expect to proportionately consolidate our investments in

Sichuan SQM – Migao Chemical Fertilizer Co., Ltd. We do not expect this change in accounting policy to impact our shareholders’ equity on April 1, 2010. We also do not expect this to significantly impact our earnings in 2012 or in future periods since the results of Sichuan SQM – Migao Chemical Fertilizer Co., Ltd., which are currently included in operating profit will be reclassified into equity earnings, with no net impact on earnings.

In addition, the format of the Company’s financial statements, and the volume of disclosure it provides, will change in numerous respects. The Company is making various changes to its controls and processes to better align with the requirements of IFRS, but these are not extensive.

The Company’s Audit Committee has not yet formally approved any of management’s conclusions about IFRS, and it is not possible at this time to quantify the transition’s ultimate impact until the completion of the preparation of the first set of financial statements under IFRS. The Company believes that it can file its interim consolidated financial statements for the three months ended June 30, 2011 on a timely basis.

### **IMPACT ON SYSTEMS AND PROCESSES**

The Company does not expect that adoption of IFRS will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation methodologies currently in use for certain specific financial statement areas such as asset impairment, etc.

### **Financial Reporting Expertise**

The Company has retained an external consultant to assist in with the IFRS implementaiton. Key finance and operational staff have obtained sufficient knowledge to implement the project jointly with the consultant. The Company has also provided Audit Committee members with detailed project scoping, timelines and deliverables. Based on matters brought to their attention the Audit Committee members will review the Audit Committee Charter and make changes to reflect the requirements for IFRS financial expertise if deemed to be necessary. The Audit Committee will continue to receive periodic presentations and project status updates from the external consultant and management.

### **Information Technology and Systems**

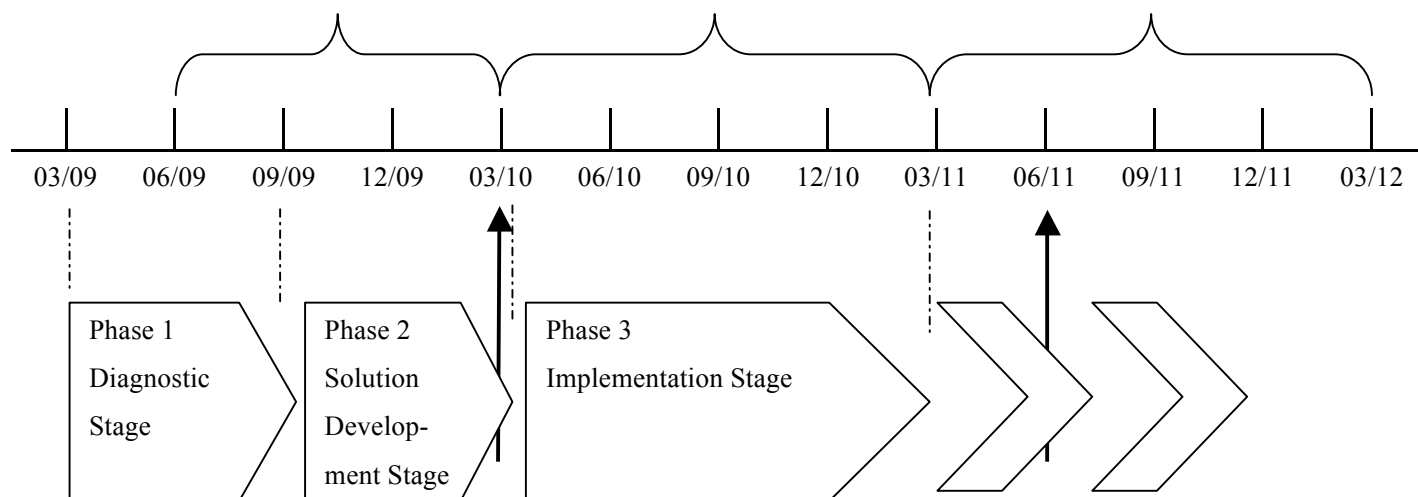
The Company continues to assess the impact of the IFRS transition project on our information systems and currently do not anticipate significant changes to our systems arising from the transition to IFRS.

### **Post-Implementation**

The Company will continue to monitor changes in IFRS throughout the implementation process (through to 2012). The Company notes that the standard-setting bodies that determine Canadian GAAP and IFRS have significant ongoing projects that could impact the differences between Canadian GAAP and IFRS and their impact on our financial statements. In particular, the Company expects that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, financial instruments, leases and revenue recognition. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

**IFRS Project Timeline**

Present – March 31, 2010	April 1, 2010 – March 31, 2011	April 1, 2011 and onwards
<ul style="list-style-type: none"> <li>- Prepare and file annual and quarterly financial statements under Canadian GAAP;</li> <li>- <b>Qualitative disclosure</b> of IFRS conversion plan and expected impact of the conversion in all 2010 quarterly MD&amp;A.</li> </ul>	<ul style="list-style-type: none"> <li>- Prepare and file annual and quarterly financial statements under Canadian GAAP;</li> <li>- Prepare parallel accounting under both Canadian GAAP and IFRS for differences identified; and</li> <li>- <b>Quantitative disclosure</b> of the IFRS conversion plan and expected impact of the conversion in all quarterly and annual MD&amp;A.</li> </ul>	<ul style="list-style-type: none"> <li>- Prepare and file annual and quarterly financial statements under IFRS with IFRS comparatives; and</li> <li>- Include detailed IFRS reconciliations.</li> </ul>



**Completed**

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

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

*Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

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

**Company Risk Factors*****Execution of the Business Plan***

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

The success of the Company’s expansion strategy will depend on a number of factors. There can be no assurance that the Company will be able to achieve its planned growth. There can be no assurance that the Company’s expansion strategy will be successful, that modifications to its strategy will not be required or that the Company will be able to enhance profitability. In addition, such growth could place a significant strain on the Company’s management, operational, financial and other resources. The Company’s ability to manage its

growth effectively will require it to develop its management information systems capabilities and improve its operational and financial systems. Moreover, the Company will need to train, motivate and manage its employees and attract senior managers and technical professionals. Any failure to expand these areas and implement and improve such systems, procedures, and controls in an efficient manner and to train, motivate and manage its employees and attract senior managers and technical professionals at a pace consistent with the Company’s business could have a material adverse effect on the Company’s business, financial condition and operating results.

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

#### ***Dependence on Key Personnel***

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

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

#### ***Key Relationships***

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

***Dependence on Key Customers***

For the year ended March 31, 2010, one customer individually comprised 21% of revenue for Migao. There can be no assurance that Migao will be able to retain its relationship with these customers or other key customers, and there can be no assurance that such customers will continue to purchase products from Migao in the future. Any negative change involving any of Migao’s largest customers, including but not limited to any such customer’s financial condition or desire to continue purchasing Migao’s products, could result in a significant reduction in business that could have a material adverse effect on the Company’s business, financial condition and operating results.

***Competition***

The Company expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and effecting business acquisitions directly or through affiliates. Many of these competitors possess greater financial, technical, personnel and other resources than the Company, and there can be no assurance that the Company will have the ability to compete successfully.

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

***Market Factors and Volatility of Commodity Prices***

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

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

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

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

### ***Environmental Risks and Hazards***

The Company’s operations are subject to various environmental laws which regulate matters such as health, safety, treatment of waste and land use. Failure to comply with applicable laws, regulations, and licensing requirements may result in enforcement actions thereunder. Penalties could include suspension or revocation of necessary licenses or permits, civil liability or the imposition of fines. The cost of compliance, remediation or liability could materially affect future operating results. Furthermore, the operational or financial impact of new or amended laws or regulations cannot be predicted and could have a material adverse impact on the Company’s business, financial condition and operating results.

### ***Operating Risks***

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

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

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

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

### ***Proprietary Rights***

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

### ***Infrastructure***

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

### ***Future Capital Requirements***

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

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

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

### ***Technical Substitution***

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

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

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

### ***Exchange Rate Fluctuations***

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

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

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

### ***Insurance***

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

every claim or loss. In the event the subsidiaries were to suffer an uninsured loss, their business, financial condition and operating results could be materially adversely affected.

### ***Foreign Operations***

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

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

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

### ***Weather Conditions and Natural Disasters***

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

### ***Control by Management***

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

***Seasonality***

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

***Dividends***

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

***Conflicts of Interest***

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

**Risks of Doing Business in China*****State Ownership***

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

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

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, China’s economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China’s economic growth through the allocation of resources, control for foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, government policies relating to currency conversion, taxation,

import restrictions and the trading of imported goods, among others, continue to have a significant impact on the overall economy, as does the presence of the government as a market participant as well as the market regulator. Many of the policy changes initiated since 1978 are unprecedented in China, experimental in nature, and are frequently refined and readjusted. Political and social factors may also lead to further refinements and readjustments. Any changes in Chinese political, economic or social conditions, or to the current laws and regulations, or their interpretations, may adversely affect the Company’s profitability and prospects.

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The Chinese government has implemented various macro-economic control measures from time to time in order to try and control the rate of economic growth, including certain measures which were put in place to restrict bank lending. Some of these measures may have a negative effect on the Company. For example, the Company’s operating results and financial position may be adversely affected by: changes in the rate or method of taxation; imposition of additional restrictions on currency conversion and remittances abroad; reduction in tariff or quota protection and other import restrictions; changes in the usage and costs of state-controlled transportation services; and state policies affecting the fertilizer industry. In addition, such macro-economic control measures may have a general adverse impact on the Chinese economy that would, in turn, likely have an adverse impact on the Company’s business, financial condition and operating results.

#### ***Government Sector Intervention***

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

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

#### ***Tobacco Industry***

Customers in the tobacco industry in China represented approximately 48% of revenue for Migao in Fiscal 2011. While tobacco consumption in China has been increasing, there is a risk that China will adopt anti-smoking policies similar to those in developed countries which could curb tobacco consumption. Such policies could include increased tobacco taxes, warning pictures on cigarette packages, a ban on tobacco advertising, a ban on smoking in public places and/or other measures. Such policies could have an adverse effect on the Company’s business, financial condition and operating results.

***Foreign Investment***

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

***Repatriation of Profit and Currency Conversion***

The Chinese government imposes control over the convertibility of the RMB into foreign currencies. With effect from July 21, 2005, the PRC government has reformed the RMB exchange rate regime into a managed floating exchange rate regime based on market supply and demand with reference to a portfolio of currencies, giving more flexibility as compared with the former system in which the RMB was pegged to the US dollar. See “Exchange Rate Fluctuations” above. Under the reformed system, the PBOC announces the closing price of a foreign currency traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for trading against the RMB on the following working day. PRC banks licensed to engage in foreign exchange transactions use the closing price announced by the PBOC as a basis and decide a rate of their own to enter into foreign exchange sale and purchase transactions with customers; such rate shall be within a specified floating band around the central parity which may be adjusted by the PBOC from time to time according to the economic and financial condition of the PRC. Although such new regulations have provided for greater liquidity of the RMB, the RMB is still not a freely convertible currency.

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

There can also be no assurance that the availability of foreign currency will be sufficient for the Company’s operating subsidiaries to satisfy their other foreign currency obligations. This may, in turn, adversely affect the Company’s ability to pay dividends. There is also no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. In

addition, failure to obtain approval from SAFE for currency conversion on the capital account may impact on the Company’s capital expenditure plans and its ability to expand in accordance with its objectives.

### ***Tax***

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

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

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

### ***Shareholders’ Rights and Enforcement of Judgements***

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

### ***Developing Legal System***

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

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

### ***Protection of Intellectual Property Rights***

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

### ***Permits and Business Licenses***

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

### ***Appropriation***

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

### ***Availability of Land***

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