

Migao Corporation

Management’s Discussion and Analysis

First Quarter, Fiscal 2011

Ended June 30, 2010

August 9, 2010

The following is Management’s Discussion and Analysis (“MD&A”) of the financial condition of Migao Corporation (the “Company” or “Migao”) and its financial performance for the three months ended June 30, 2010. This MD&A should be read in conjunction with the unaudited Interim Consolidated Financial

Statements and related notes as at and for the period ended June 30, 2010 and the audited Consolidated Financial Statements and related notes as at and for the year ended March 31, 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.

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 June 30, 2010, the Company had 52,140,661 common shares outstanding. At August 9, 2010, the Company has 52,140,661 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”, 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, primarily to the Chinese domestic agricultural market. These fertilizers provide China’s economic crop (i.e. tobacco, fruit and vegetable) growers added opportunities for improving crop quality and increasing crop yield in an environmentally responsible manner, and contributing to the overall agricultural development of China.

China has few potash reserves 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 Quarter

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

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. The inputs into the Company’s production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its raw material costs, variable production costs, and customer contract negotiations.

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

Measurement

Below under “Quarterly Results“ and “Results of Operations” are two tables the Company uses to assess performance. The first table presents the Company’s consolidated results for the last eight quarters. The second table sets out the Company’s consolidated results for the quarter ended June 30, 2010, compared with the same period last year.

Table 1 - Quarterly Results

Fiscal <i>in thousands of Canadian dollars</i> 2008	Fiscal	Fiscal				Fiscal			
	2011	2010				2009			
<i>except per share and percentage data</i>	Q1	Q4	Q3	Q2	Q1	Q2	Q1	Q4	
Revenues	66,256	75,461	67,034	67,684	58,928	84,953	76,531	78,161	
Gross profit	17,499	18,090	15,607	14,349	14,608	18,977	17,313	19,104	
Gross profit (% of revenues)	26.4%	24.0%	23.3%	21.2%	24.8%	22.3%	22.6%	24.4%	
Selected operating expenses:									
Selling	2,366	2,537	1,762	1,115	660	1,617	1,708	1,738	
General and administrative	2,736	2,694	2,804	1,556	1,772	2,614	2,114	2,445	
Stock-based compensation	298	371	391	391	565	556	592	593	
Finance costs	750	640	523	364	206	(18)	305	208	
Pre-operating costs	246	57	114	56	264	38	128	52	
Other income	229	212	57	15	52	51	309		
-									
Income taxes	2,465	1,469	1,364	1,284	1,635	1,510	824	1,168	
Income taxes (% of revenues)	3.7%	1.9%	2.0%	1.9%	2.8%	1.8%	1.1%	1.5%	
Effective tax rate (% of income before taxes)	21.6%	12.3%	13.5%	11.8%	14.6%	10.6%	6.5%	8.3%	
Net income	8,921	10,426	8,706	9,598	9,558	12,711	11,951	12,870	
Net income (% of revenues)	13.5%	13.8%	13.0%	14.2%	16.2%	15.0%	15.6%	16.5%	
EBITDA	13,277	13,499	11,618	12,262	12,607	15,296	13,983	14,967	
EBITDA (% of revenues)	20.0%	17.9%	17.3%	18.1%	21.4%	18.0%	18.3%	19.1%	
Earnings per share (in \$):									
Basic	0.17	0.20	0.18	0.21	0.21	0.28	0.27	0.32	
Diluted	0.17	0.20	0.18	0.20	0.20	0.28	0.27	0.31	

Table 2 - Results of Operations

Consolidated Results

The following table sets out the Company’s consolidated results for the quarter ended June 30, 2010, compared with the same period last year.

<i>In thousands of Canadian dollars</i> <i>except per share and percentage data</i>	Q1 2011	Q1 2010	Increase (Decrease)	% Increase (Decrease)
Revenues	66256	58928	7328	12.4%
Gross profit	17499	14608	2891	19.8%
Gross profit (% of revenues)	26.4%	24.8%	1.6%	6.5%
Selling expenses	2366	660	1706	258.5%
Selling expenses (% of revenues)	3.6%	1.1%	2.5%	227.3%
G & A	2736	1772	964	54.4%
G & A (% of revenues)	4.1%	3.0%	1.1%	36.7%

Stock-based compensation	298	565	(267)	(47.3%)
Stock-based compensation (% of revenues)	0.4%	1.0%	(0.6%)	(60.0%)
Other income	229	52	177	340.4%
Other income (% of revenues)	0.3%	0.1%	0.2%	200.0%
Income taxes	2465	1635	830	50.8%
Income taxes (% of revenues)	3.7%	2.8%	0.9%	32.1%
Effective tax rate (% of net income before taxes)	21.6%	14.6%	7.0%	47.9%
EBITDA	13277	12607	670	5.3%
EBITDA (% of revenues)	20.0%	21.4%	(1.4%)	(6.5%)
Net income (loss)	8921	9558	(637)	(6.7%)
Net income (loss) (% of revenues)	13.5%	16.2%	(2.7%)	(16.7%)
Earnings per share				
Basic	0.17	0.21	(0.04)	(19.0%)
Diluted	0.17	0.20	(0.03)	(15.0%)
Weighted average number of common shares outstanding				
Basic	52140661	46459661		
Diluted	52559446	46947233		

Table 3 - Reconciliation to Canadian GAAP Net Income

The following table sets out the reconciliation of the Company’s consolidated GAAP net income to non-GAAP earning measure, specifically EBITDA, for the quarter ended June 30, 2010 compared with the same period last year. Management believes that EBITDA is a measure of how efficiently and effectively the Company’s business is running.

<i>In thousands of Canadian dollars</i>	Q1 2011	Q1 2010
Net Income	8921	9558
Add:		
Amortization	1141	1209
Interest Expense	750	205
Income Tax Expense	2465	1635
EBITDA	13277	12607

Revenues**Table 4**

<i>Average Foreign Exchange Rates</i>	Q1 2011	Q1 2010
RMB to C\$	0.1506	0.1709
C\$ to RMB	6.6401	5.8514

Table 5

<i>Revenues (in thousands)</i>	Q1 2011	Q1 2010
Revenues in RMB	440042	344810
Revenues in CDN\$	66256	58928

Revenues were \$66.3 million (RMB 440.0 million) for the quarter ended June 30, 2010 compared with \$58.9 million (RMB 344.8 million) for the same period last year, representing an increase of \$7.4 million (RMB 95.2 million) or 12.4% (27.6% in RMB). The increase is mainly due to the facilities running at full capacity in the current quarter compared to the same period last year when the facilities had approximately 20% of production off-line due to preventive maintenance. Average selling price was RMB 4,669 and RMB 5,650 per tonne for potassium nitrate and RMB 2,915 and RMB 4,041 per tonne for potassium sulphate for the quarters ended June 30, 2010 and 2009, respectively. Average selling price for the quarter ended June 30, 2010 decreased by approximately RMB 981 per tonne for potassium nitrate and RMB 1,126 per tonne for potassium sulphate over the same period last year primarily as a result of lower potassium chloride prices. However, production volume for the quarter ended June 30, 2010 increased by 21,273 tonnes over the same period last year due to less maintenance shutdowns and improved demands. The annual run rate for the core products was at 320,000 tonnes as of June 30, 2010 and 2009.

During the quarter, Migao sold approximately 3,000 tonnes of lower grade potassium sulphate (lower potassium oxide content) that had very little value added with just some rudimentary processing and packaging compared with 14,620 tonnes for the same period last year. These products were sold to new vegetable farming customers as a strategy to help them control costs and are seasonal in nature.

Revenues for the quarter ended June 30, 2010 decreased by \$9.2 million (RMB 54.8 million) or 12.2% compared with the previous quarter ended March 31, 2010. The decreased revenue is mainly due to the lower selling prices on potassium nitrate and decreased sales in compound fertilizer as a result of its seasonality. Average selling price for the quarter ended June 30, 2010 decreased by approximately RMB 119 per tonne for potassium nitrate and increased by approximately RMB 223 per tonne for potassium sulphate compared with the previous quarter ended March 31, 2010 due to market conditions. Production volume for the quarter ended June 30, 2010 increased by 6,833 tonnes compared with the previous quarter ended March 31, 2010.

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\$.

Revenues for the quarter ended June 30, 2010 decreased by \$9.0 million compared to the same period last year as a result of foreign exchange. Revenues for the quarter ended June 30, 2010 decreased by \$0.9 million compared with the previous quarter ended March 31, 2010 due to foreign exchange.

Table 6 - The following is a summary of the Company’s facilities and production capacities as of June 30, 2010.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan Migao	Potassium Nitrate	80000	Ammonium Chloride	44800	December 2003
G u a n g d o n g Migao	Potassium Sulphate	160000	Hydrochloric Acid	192000	December 2004
Liaoning Migao	Potassium Sulphate	40000	Hydrochloric Acid	48000	December 2005
Changchun	Potassium Sulphate	40000	Hydrochloric Acid	48000	December 2007
Total		320000		332800	

	Other Product	Annual Capacity (tonnes)	Production Commencement
Sichuan Migao	Compound Fertilizer	100000	January 2010

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 7

Core Product	Quarterly Design Capacity (tonnes)	Volume Produced During the Quarter (tonnes)	Deliveries During the Quarter (tonnes)
Potassium Nitrate	20000	25772	23753
Potassium Sulphate	60000	62046	77795
Potassium Chloride and Value Added Potassium Chloride	N/A	N/A	13,091
Total	80000	87818	114639

Other Product	Quarterly Design Capacity (tonnes)	Volume Produced During the Quarter (tonnes)	Deliveries During the Quarter (tonnes)
Compound Fertilizer	25000	5173	72861

¹ Of the compound fertilizer delivered during the quarter, the Company only used potassium nitrate and potassium sulphate purchased from a third party.

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 \$17.5 million for the quarter ended June 30, 2010 compared to \$14.6 million for the same period last year, representing an increase of \$2.9 million (or 19.8%). Gross margin as a percentage of sales for the quarter ended June 30, 2010 increased by 1.6% to 26.4% (from 24.8%) compared with the same period last year. The increase in gross profit and gross profit margin were primarily due to the timing of raw material purchases as well as production improvements at certain facilities.

Gross profit for the quarter ended June 30, 2010 decreased by \$0.6 million (or 3.3%) to \$17.5 million (from \$18.1 million) compared with the previous quarter ended March 31, 2010. Decrease in gross profit is due to slightly lower selling prices of potassium nitrate and reduced sales at certain facilities due to the seasonality of the products. Gross margin as a percentage of sales for the quarter ended June 30, 2010 increased by 2.4% to 26.4% (from 24.0%) compared with the previous quarter ended March 31, 2010. Increase in gross margin percentage is due to the strategic timing of raw material purchases.

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

Selling Expenditures

Selling expenditures for the quarter ended June 30, 2010 increased by \$1.7 million (or 258.5%) to \$2.4 million (from \$0.7 million) compared with the same period last year. Selling expenditures as a percentage of sales for the quarter ended June 30, 2010 increased by 2.5% to 3.6% (from 1.1%) compared with the same period last year. 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 for the quarter ended June 30, 2010 decreased by \$0.1 million (or 6.7%) to \$2.4 million (from \$2.5 million) compared with the previous quarter ended March 31, 2010. Selling expenditures as a percentage of sales for the quarter ended June 30, 2010 increased by 0.2% to 3.6% (from 3.4%) compared with the previous quarter ended March 31, 2010.

Selling expenditures include transportation and related costs incurred for delivery of goods to customers. Excluding transportation cost, the majority of selling costs are fixed.

General and Administrative Expenditures

General and administrative expenditures for the quarter ended June 30, 2010 increased by \$0.9 million (or 54.4%) to \$2.7 million (from \$1.8 million) compared with the same period last year. General and

administrative expenditures as a percentage of sales for the quarter ended June 30, 2010 increased by 1.1% to 4.1% (from 3.0%) compared with the same period last year.

General and administrative expenses have increased as a result of Internal Audit review program, investor relations, and costs associated with international expansion.

General and administrative expenditures for the quarter ended June 30, 2010 remained the same at \$2.7 million compared with the previous quarter ended March 31, 2010. General and administrative expenditures as a percentage of sales for the quarter ended June 30, 2010 increased by 0.5% to 4.1% (from 3.6%) compared with the previous quarter ended March 31, 2010.

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 ended June 30, 2010 increased by \$0.9 million (or 50.8%) to \$2.5 million (from \$1.6 million) compared with the same period last year. Income taxes as a percentage of sales for the quarter ended June 30, 2010 increased by 0.9% to 3.7% (from 2.8%) compared with the same period last year. Effective tax rate for the quarter ended June 30, 2010 increased by 7.0% to 21.6% (from 14.6%) compared with the same period last year.

Income taxes for the quarter ended June 30, 2010 increased by \$1.0 million (or 67.8%) to \$2.5 million (from \$1.5 million) compared with the previous quarter ended March 31, 2010. Income taxes as a percentage of sales for the quarter ended June 30, 2010 increased by 1.8% to 3.7% (from 1.9%) compared with the previous quarter ended March 31, 2010. Effective tax rate for the quarter ended June 30, 2010 increased by 9.3% to 21.6 % (from 12.3%) compared with the previous quarter ended March 31, 2010.

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.

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.

Earnings

Net earnings for the quarter ended June 30, 2010 decreased by \$0.7 million (or 6.7%) to \$8.9 million (from \$9.6 million) compared with the same period last year. Net earnings as a percentage of sales for the quarter ended June 30, 2009 decreased by 2.7% to 13.5% (from 16.2%) compared with the same period last year. The decrease in net earnings and net earnings as a percentage of sales is primarily a result of lower selling prices of core and co-products as a result of lower raw material cost per tonne, increased general and administrative expenditures, and higher effective tax rate.

Net earnings for the quarter ended June 30, 2010 decreased by \$1.5 million (or 14.4%) to \$8.9 million (from \$10.4 million) compared with the previous quarter ended March 31, 2010. Net earnings as a percentage of sales for the quarter ended June 30, 2010 decreased by 0.3% to 13.5 (from 13.8%) compared with the previous quarter ended March 31, 2010. Decrease in net earnings and net earnings percentage compared to the previous quarter is due to slightly lower selling prices of potassium nitrate and reduced output at certain facilities due to the seasonality of the products as well as higher effective tax rate.

Earnings per Share

Earnings per share was \$0.17 (\$0.17 fully diluted) for the quarter ended June 30, 2010 compared with \$0.21 (\$0.20 fully diluted) for the same period last year, representing a decrease of \$0.04 (or 19.0%). The decrease in earnings per share is due to lower selling prices as a result of lower potash cost per tonne as well as higher general and administrative expenditures and effective tax rate. 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 quarter, which contributes to the decrease in earnings per share.

Earnings per share for the quarter ended June 30, 2010 decreased by \$0.03 (or 15.0%) to \$0.17 (from \$0.20) compared with the previous quarter ended March 31, 2010. The decrease in earnings per share compared to the previous quarter was due to slightly lower selling prices of potassium nitrate and reduced output at certain facilities due to the seasonality of the products as well as higher effective tax rate.

The total stock-based compensation expense for the quarter ended June 30, 2010 was \$0.3 million, resulting in a decrease of \$0.01 (\$0.01 fully diluted) on earnings per share.

EBITDA

EBITDA for the quarter ended June 30, 2010 increased by \$0.7 million (or 5.3%) to \$13.3 million (from \$12.6 million) compared with the same period last year. EBITDA as a percentage of sales for the quarter ended June 30, 2010 decreased by 1.4% to 20.0% (from 21.4%) compared with the same period last year. The increase in EBITDA was due to production improvements and the timing of raw material purchases. The decrease in EBITDA percentage is due to lower selling prices of on core and co-products as a result of lower raw material cost per tonne.

EBITDA for the quarter ended June 30, 2010 decreased by \$0.2 million (or 1.6%) to \$13.3 million (from \$13.5 million) compared with the previous quarter ended March 31, 2010. Decrease in EBITDA is due to slightly

lower selling prices of potassium nitrate and reduced output at certain facilities due to the seasonality of the products. EBITDA as a percentage of sales for the quarter ended June 30, 2010 increased by 2.1% to 20.0% (from 17.9%) compared with the previous quarter ended March 31, 2010. Increase in EBITDA percentage is due to the strategic timing of raw material purchases.

Liquidity and Capital Resources

(in thousands of Canadian dollars except for ratios)

	June 30, 2010	March 31, 2010
Current Ratio	3.52:1	3.52 : 1
Cash	96,173	60,221
Net Cash¹	48,037	18,790
Working Capital	207,212	189,451
Total Assets	373,973	343,976
Total Debt	82,388	75,470
Total Equity	291,585	268,506
Long Term Bank Debt to Equity Ratio	0 : 1	0 : 1

¹ Cash and cash equivalents less bank and other loans

The Canadian dollar/RMB foreign exchange rate used to translate the assets and liabilities was 6.3939 at June 30, 2010, compared to 6.7204 at March 31, 2010, representing 4.9% appreciation in RMB. For the quarter ended June 30, 2010, net assets would have been 4.9% lower if using the same rate as at the end of the period ended March 31, 2010.

Cash Position

Cash and cash equivalents totalled \$96.2 million as of June 30, 2010, representing an increase of \$36.0 million compared with the balance as of March 31, 2010. The increase for the quarter ended June 30, 2010 is a result of \$4.3 million net proceeds from bank loans, \$30.4 million cash inflow from operations, \$3.8 million foreign exchange gain, offset by \$2.5 million invested in capital assets and construction mainly for the expansion of Shanghai Migao and SQM JV.

At June 30, 2010, the Company had short-term bank loans outstanding totalling \$46.9 million for working capital purposes and to fund fixed asset additions. The loans are secured by certain land use rights, buildings, and corporate guarantees by Sichuan and Guangdong Migao. The total carrying value of the security on the loans is \$2.3 million.

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 \$207.2 million as of June 30, 2010, representing an increase of \$17.8 million compared with the balance as of March 31, 2010. This increase is primarily attributable to \$36.0 million increase in cash and cash equivalents, \$13.9 million increase in prepayments, deposits and other assets, \$0.8 million decrease in customer deposits, and offset by \$2.4 million decrease in accounts receivable, \$2.5 million decrease in restricted cash, \$19.2 million decrease in inventory, \$1.3 million decrease in due from joint venture partner, \$0.7 million increase in accounts payable and accrued liabilities and notes payables, and \$6.8 million increase in loans.

Prepayments, deposits and other assets increased by \$13.9 million or 45.3% at June 30, 2010 compared to the balance at March 31, 2010. Prepayments, deposits and other receivables increased due to additional investments made in capital assets and construction for the expansion of Shanghai Migao and SQM JV. Prepayments, deposits and other assets also increased due to raw material purchases in a period of gradually increasing potash pricing.

Customer deposits decreased by \$0.8 million or 10.7% at June 30, 2010 compared to the balance at March 31, 2010. Customer deposits decreased as a result of the timing of contracts.

Accounts receivable decreased by \$2.4 million or 6.7% at June 30, 2010 compared to the balance at March 31, 2010. Accounts receivable decreased due to the management’s efforts to better manage the working capital in current market conditions. The Company’s year to date average days of sales outstanding (DSO) at June 30, 2010 and March 31, 2010 were 49 and 39 days respectively. The Company had no bad debt expense in the quarter ended June 30, 2010.

Restricted cash decreased by \$2.5 million or 18.1% at June 30, 2010 compared to the balance at March 31, 2010. Restricted cash decreased due to a decrease in notes payables, resulting in banks requiring less cash deposits as pledge for notes payables.

Total inventory decreased by \$19.2 million or 16.0% at June 30, 2010 compared to the balance at March 31, 2010. Inventory decreased due to timing of raw material purchases and deliveries.

Due from joint venture partner decreased by \$1.3 million or 100.0% at June 30, 2010 compared to the balance at March 31, 2010. Due from joint venture partner decreased as a result of SQM making additional capital contributions to the joint venture during the quarter.

Accounts payable and accrued liabilities and notes payables increased by \$0.7 million or 2.8% at June 30, 2010 compared to the balance at March 31, 2010 due to the management’s efforts to better manage the working capital in current market conditions.

Loans increased by \$6.8 million or 16.6% at June 30, 2010 compared to the balance at March 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.

At the end of the period, the Company had \$93.1 million (273,213 tonnes) of potassium chloride inventory with an average delivered price of \$341 per tonne, of which 65,055 tonnes were on hand and the remainder in transit. In addition, during the quarter, the Company sold 25,610 tonnes of potassium nitrate, 80,347 tonnes of potassium sulphate, 7,286 tonnes of compound fertilizer, 13,091 tonnes of potassium chloride, and at the end of the period, the Company had \$4.7 million (44,132 tonnes) of finished goods inventory on hand, including co-products. Of the compound fertilizer sold during the period, the Company did not use any potassium nitrate or potassium sulphate produced at its own facilities.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was \$59.5 million at June 30, 2010 compared with \$55.8 million as of March 31, 2010.

Construction in progress was \$2.2 million at June 30, 2010, compared with \$2.4 million as of March 31, 2010. These balances consist mainly of the construction costs attributable to expenses at SQM JV potassium nitrate facility and additional potassium sulphate capacity at Shanghai Migao.

Land use rights net of accumulated amortization was \$20.3 million at June 30, 2010 compared with \$19.4 million as of March 31, 2010. The slight increase is mainly due to unrealized foreign exchange gains on land use rights experienced during the quarter.

Contractual Obligation Summary

- Purchase contracts dominated in RMB for raw materials and supplies in the amount of approximately \$90.0 million exist as of June 30, 2010. Purchase contracts dominated in US\$ for finished goods in the amount of approximately \$3.5 million exist as of June 30, 2010. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$5.6 million exist as of June 30, 2010. 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 \$4.8 million exists as of June 30, 2010. The joint venture contract was entered into in the normal course of business.

Report on Controls

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at June 30, 2010 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 the three new planned production facilities, joint venture production facility, and its developing international expansion plans. KPMG LLP commenced their work during the quarter ended September 30, 2009 with a review of the corporate office and 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.

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

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

Capital Structure

The Company is authorized to issue an unlimited number of common shares and unlimited number of preference shares, each common share providing the holder with one vote. As of August 9, 2010, there were:

- 52,140,661 common shares outstanding.
- 1,695,000 stock options outstanding, with exercise prices of between \$2.85 to \$9.93, and weighted average remaining life of 3.25 years. 1,255,000 of these stock options are exercisable as of August 9, 2010.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Migao including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

During the quarter ended June 30, 2010, 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 financial statements. The services provided by LYEDC are administrative services such as secretarial, language translations, travel arrangements in China, and raw materials co-ordination.

In addition, the Company paid an excess of \$29,059 to Beijing Wei De Sen (“BWDS”) for the cost of motor vehicles it previously purchased on behalf of the Company. The motor vehicles were purchased to facilitate the pre-operating activities of one of the Company’s non-operating subsidiaries. The transaction was in the normal course of business and was measured at the exchange amounts, which are the amounts agreed upon by the parties.

BWDS and LYEDC are both 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 full production capacity of 80,000 tonnes of potassium nitrate per year. During calendar 2008, the facility added the capability to produce potassium nitrate in an upgraded form and phase-in production began in December 2008. In addition, a 100,000 tonne per year compound fertilizer facility was constructed and test batch production began in March 2009. The first 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

Construction of an additional 60,000 tonnes of annual potassium sulphate capacity is completed and production began in mid-November 2008. Both the production schedule and the construction costs were in line with the Company’s expectations. The expanded production capacity brings the total annual production capacity of the Guangdong Migao facility to 160,000 tonnes of potassium sulphate. 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 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. The current market price for sulphuric acid remains below a level which justifies beginning production at Liaoning Migao. Sulphuric acid from this facility will be consumed by Liaoning Migao and nearby Changchun Migao for the production of potassium sulphate.

Shanghai Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity in Shanghai is expected to be completed during the second half of calendar 2010. Prior delays at the Shanghai construction site were a result of delays in receiving necessary approvals from Chinese government officials and resources which are being allocated to local prioritized government construction projects. These approvals were obtained at the end of May 2009, allowing for the completion of construction scheduled to be completed during the second half of calendar 2010.

Tianjin Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity will be constructed in the city of Tianjin. Construction will begin as soon as necessary environmental approvals are obtained from Chinese government. It is anticipated that this will not occur until after calendar 2011.

Zunyi Migao

A potassium sulphate facility with 40,000 tonnes of initial annual capacity will be constructed in the city of Zunyi. Delays at the Zunyi construction site are a result of delays in the construction of a public road connected to the construction site. Construction of the facility will begin as soon as the public road is built by the Chinese government. It is anticipated that this will not occur until after calendar 2011.

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, is expected to be completed during the second half of calendar 2010.

International Expansion

The Company is currently reviewing and performing due diligence on a business plan to expand outside of China. The area of expansion would be in Southern Asia, near China’s borders. This expansion outside of China is to open up international markets without the penalty of the current 105% export tax. 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 ended June 30, 2010, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$2.5 million. For the year ended March 31, 2011, the capital expenditure is budgeted for approximately \$26 million.

Table 8 - The following is a summary of the Company’s facilities and expected production capacities as of August 9, 2010.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan Migao	Potassium Nitrate	80000	Ammonium Chloride	44800	December 2003
G u a n g d o n g Migao	Potassium Sulphate	160000	Hydrochloric Acid	192000	December 2004
Liaoning Migao	Potassium Sulphate	40000	Hydrochloric Acid	48000	December 2005
Changchun	Potassium Sulphate	40000	Hydrochloric Acid	48000	December 2007
Total		320000		332800	

	Other Products	Annual Capacity (tonnes)	Production Commencement
Sichuan Migao	Compound Fertilizer	100000	January 2010
Liaoning	Sulphuric Acid	120000	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. 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 August 9, 2010.

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 unaudited consolidated financial statements for the quarter ended June 30, 2010 and the audited consolidated financial statements for the year ended March 31, 2010 and the notes thereto. Those Consolidated Financial Statements outline the accounting principles and policies used to prepare our financial statements. The critical accounting policies of the Company are outlined in our Fiscal 2010 MD&A and remain substantially unchanged. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

IFRS Conversion

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, establishing 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 Q-2 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 Q-4 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. The Implementation and Execution phase will continue into 2012.

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 expects it will 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.

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 does not currently expect to 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 will select this option, and therefore will not capitalize borrowing costs on any projects that were already in progress at April 1, 2010.

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

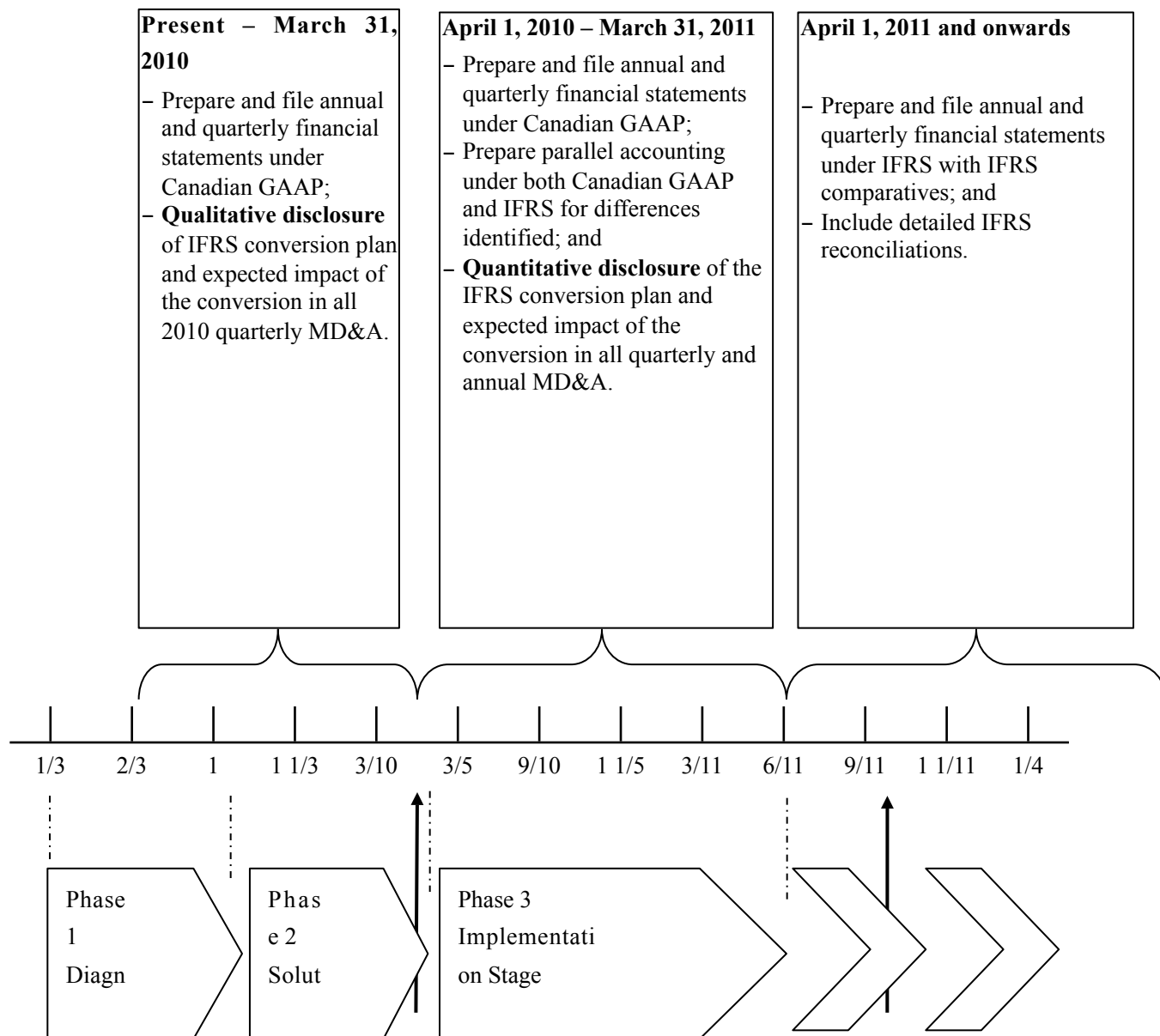
Impairment of long-lived assets - Under Canadian GAAP, when the Company determines that an asset group’s carrying amount exceeds its undiscounted estimated future cash flows, it recognizes an impairment loss, measured as the amount by which that carrying amount exceeds the asset group’s fair value. The 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.

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 expectations set out above remain tentative at the current time, and may change as work continues and as further reviews are carried out, or as a result of further actions by the International Accounting Standards board and the AcSB, or regulatory developments issued by the Canadian Securities Administrators (CSA). 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.

IFRS Project Timeline



Completed

April 1, 2010 Transition Date Opening IFRS balance sheet with reconciliation	June 30, 2011 First IFRS financial statements for Q1 (with transition disclosures)
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Financial Instruments and Other Instruments

Migao is not a party to any financial instrument, as the term is defined in National Instrument 51-102F1, paragraph 1.14.

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In the Annual Information Form of the Company dated June 18, 2010, it provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. In management’s opinion, there has been no material change in the nature or magnitude of the risks faced by the Company.