

# **Migao Corporation**

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

**Second Quarter, Fiscal 2011  
Ended September 30, 2009**

November 11, 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 and six months ended September 30, 2010. This MD&A should be read in conjunction with the unaudited Consolidated Financial Statements and related notes as at and for the period ended September 30, 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](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 September 30, 2010, the Company had 52,220,661 common shares outstanding. At November 11, 2010, the Company has 52,220,661 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), 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 Quarter**

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

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.

### **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. On a year to date basis for fiscal 2011, the Company has exceeded this historical range and has achieved 25.1% gross profit. The inputs into the Company’s production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its raw material costs, variable production costs, and customer contract negotiations.

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

### Measurement

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

### Table 1 - Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	<b>Fiscal 2011</b>		<b>Fiscal 2010</b>				<b>Fiscal 2009</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q2</b>	<b>Q1</b>
<b>Revenues</b>	<b>68,455</b>	66,256	75,461	67,034	67,684	58,928	84,953	76,531
<b>Gross profit</b>	<b>16,286</b>	17,499	18,090	15,607	14,349	14,608	18,977	17,313
<b>Gross profit (% of revenues)</b>	<b>23.8%</b>	26.4%	24.0%	23.3%	21.2%	24.8%	22.3%	22.6%
<b>Selected operating expenses:</b>								
<b>Selling</b>	<b>2,065</b>	2,366	2,537	1,762	1,115	660	1,617	1,708
<b>General and administrative</b>	<b>2,290</b>	2,736	2,694	2,804	1,556	1,772	2,614	2,114
<b>Stock-based compensation</b>	<b>261</b>	298	371	391	391	565	556	592
<b>Finance costs</b>	<b>654</b>	750	640	523	364	206	(18)	305
<b>Pre-operating costs</b>	<b>364</b>	246	57	114	56	264	38	128
<b>Other income</b>	<b>59</b>	229	212	57	15	52	51	309
<b>Income taxes</b>	<b>2,318</b>	2,465	1,469	1,364	1,284	1,635	1,510	824
<b>Income taxes (% of revenues)</b>	<b>3.4%</b>	3.7%	1.9%	2.0%	1.9%	2.8%	1.8%	1.1%
<b>Effective tax rate (% of income before taxes)</b>	<b>21.8%</b>	21.6%	12.3%	13.5%	11.8%	14.6%	10.6%	6.5%
<b>Net income</b>	<b>8,298</b>	8,921	10,426	8,706	9,598	9,558	12,711	11,951
<b>Net income (% of revenues)</b>	<b>12.1%</b>	13.5%	13.8%	13.0%	14.2%	16.2%	15.0%	15.6%
<b>EBITDA</b>	<b>12,448</b>	13,277	13,499	11,618	12,262	12,607	15,296	13,983
<b>EBITDA (% of revenues)</b>	<b>18.2%</b>	20.0%	17.9%	17.3%	18.1%	21.4%	18.0%	18.3%
<b>Earnings per share (in \$):</b>								
<b>Basic</b>	<b>0.16</b>	0.17	0.20	0.18	0.21	0.21	0.28	0.27
<b>Diluted</b>	<b>0.16</b>	0.17	0.20	0.18	0.20	0.20	0.28	0.27

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

The following table sets out the Company’s consolidated results for the quarter and six months ended September 30, 2010, compared with the same periods last year.

<i>In thousands of Canadian dollars except per share and percentage data</i>	September 30		Increase (Decrease)	% Increase (Decrease)	September 30		Increase (Decrease)	% Increase (Decrease)
	Q2 2011	Q2 2010			YTD 2011	YTD 2010		
Revenues	68,455	67,684	771	1.1%	134,711	126,612	8,099	6.4%
Gross profit	16,286	14,349	1,937	13.5%	33,785	28,957	4,828	16.7%
Gross profit (% of revenues)	23.8%	21.2%	2.6%	12.3%	25.1%	22.9%	2.2%	9.6%
Selling expenses	2,065	1,115	950	85.2%	4,431	1,775	2,656	149.6%
Selling expenses (% of revenues)	3.0%	1.6%	1.4%	87.5%	3.3%	1.4%	1.9%	135.7%
G & A	2,290	1,556	734	47.2%	5,026	3,328	1,698	51.0%
G & A (% of revenues)	3.3%	2.3%	1.0%	43.5%	3.7%	2.6%	1.1%	42.3%
Stock-based compensation	261	391	(130)	(33.2%)	559	956	(397)	(41.5%)
Stock-based compensation (% of revenues)	0.4%	0.6%	(0.2%)	(33.3%)	0.4%	0.8%	(0.4%)	(50%)
Other income	59	15	44	293.3%	288	67	221	329.9%
Other income (% of revenues)	0.1%	0.0%	0.1%	N/A	0.2%	0.1%	0.1%	100.0%
Income taxes	2,318	1,284	1,034	80.5%	4,783	2,919	1,864	63.9%
Income taxes (% of revenues)	3.4%	1.9%	1.5%	78.9%	3.6%	2.3%	1.3%	56.5%
Effective tax rate (% of net income before taxes)	21.8%	11.8%	10.0%	84.7%	21.7%	13.2%	8.5%	64.4%
EBITDA	12,448	12,262	186	1.5%	25,725	24,870	855	3.4%
EBITDA (% of revenues)	18.2%	18.1%	0.1%	0.6%	19.1%	19.6%	(0.5%)	(2.6%)
Net income (loss)	8,298	9,598	(1,300)	(13.5%)	17,219	19,156	(1,937)	(10.1%)
Net income (loss) (% of revenues)	12.1%	14.2%	(2.1%)	(14.8%)	12.8%	15.1%	(2.3%)	(15.2%)
Earnings per share								
Basic	0.16	0.21	(0.05)	(23.8%)	0.33	0.41	(0.08)	(19.5%)
Diluted	0.16	0.20	(0.04)	(20.0%)	0.33	0.41	(0.08)	(19.5%)
Weighted average number of common shares outstanding								
Basic	52,171,422	46,459,661			52,156,125	46,459,661		
Diluted	52,569,835	46,931,813			52,564,559	46,918,502		

**Table 3 - Reconciliation to Canadian GAAP Net Income**

The following table sets out the reconciliation of the Company’s consolidated GAAP net income to non-GAAP earning measure, specifically EBITDA, for the quarter and six months ended September 30, 2010, 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>Q2 2011</b>	<b>Q2 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>Net Income</b>	8,298	9,598	17,219	19,156
<b>Add:</b>				
<b>Amortization</b>	1,178	1,016	2,319	2,225
<b>Interest Expense</b>	654	364	1,404	570
<b>Income Tax Expense</b>	2,318	1,284	4,783	2,919
<b>EBITDA</b>	<b>12,448</b>	<b>12,262</b>	<b>25,725</b>	<b>24,870</b>

**Revenues****Table 4**

<i>Average Foreign Exchange Rates</i>	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Q2 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>RMB to Canadian dollars</b>	0.1535	0.1506	0.1607	0.1521	0.1658
<b>Canadian dollars to RMB</b>	6.5147	6.6401	6.2228	6.5746	6.0314

**Table 5**

<i>Revenues (in thousands)</i>	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Q2 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
<b>Revenues in RMB</b>	445,863	440,042	421,269	885,905	766,079
<b>Revenues in CDN\$</b>	68,455	66,256	67,684	134,711	126,612

Revenues were \$68.5 million and \$134.7 million for the quarter and six months ended September 30, 2010, respectively, compared with \$67.7 million and \$126.6 million for the same periods last year, representing an increase of \$0.8 million or 1.1% (RMB 24.6 million or 5.8%) and \$8.1 million or 6.4% (RMB 119.8 million or 15.6%), respectively. The increase in revenue for the quarter and six months ended September 30, 2010 is mainly due to higher sales volumes of core and co-products, including potassium chloride, value added potassium chloride, and compound fertilizer. Average selling price was RMB 4,594 and RMB 4,632 per tonne for potassium nitrate and RMB 2,818 and RMB 2,865 per tonne for potassium sulphate for the quarter and six months ended September 30, 2010, respectively. Average selling price for the quarter and six months ended September 30, 2010 decreased by approximately RMB 939 and RMB 956 per tonne for potassium nitrate and RMB 104 and RMB 412 per tonne for potassium sulphate, respectively, over the same periods last year primarily as a result of lower potassium chloride prices. However, production volume for the quarter and six months ended September 30, 2010 increased by 3,438 tonnes and 24,711 tonnes, respectively, over the same

periods 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 September 30, 2010 and 2009.

During the quarter, Migao produced and sold approximately 29,908 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 41,000 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 September 30, 2010 increased by \$2.2 million (RMB 5.8 million) or 3.3% compared with the previous quarter ended June 30, 2010. The increased revenue is mainly due to higher sales volumes of potassium sulphate, potassium chloride, and value added potassium chloride. Average selling price for the quarter ended September 30, 2010 decreased by approximately RMB 75 per tonne for potassium nitrate and by RMB 97 per tonne for potassium sulphate compared with the previous quarter ended June 30, 2010 due to market conditions.

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 six months ended September 30, 2010 decreased by \$3.2 million and \$12.2 million, respectively, as a result of foreign exchange compared to the same periods last year. Revenues for the quarter ended September 30, 2010 increased by \$1.3 million compared with the previous quarter ended June 30, 2010 due to foreign exchange.

**Table 6** - The following is a summary of the Company’s facilities and annual production capacities as of September 30, 2009 and September 30, 2010.

	<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
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
<b>Total</b>		<b>320,000</b>		<b>332,800</b>	

	<b>Other Product</b>	<b>Annual Capacity (tonnes)</b>	<b>Production Commencement</b>
Sichuan	Compound Fertilizer	100,000	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** - The following is a summary of the Company’s productions and sales of its core products for the quarter ended September 30, 2010.

<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	20,000	24,538	24,593
Potassium Sulphate	60,000	57,477	52,377
Potassium Sulphate (lower grade)	N/A	29,908	29,908
Potassium Chloride and Value Added Potassium Chloride	N/A	1,124	20,269
<b>Total</b>	<b>80,000</b>	<b>113,047</b>	<b>127,147</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	Nil	Nil <sup>1</sup>

<sup>1</sup> There was no sales of compound fertilizer during the quarter as a result of its seasonality.

### ***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 \$16.3 million and \$33.8 million for the quarter and six months ended September 30, 2010, respectively, compared to \$14.4 million and \$29.0 million for the same periods last year, representing an increase of \$1.9 million (or 13.5%) and \$4.8 million (or 16.7%), respectively. Gross margin as a percentage of sales for the quarter and six months ended September 30, 2010 increased by 2.6% to 23.8% (from 21.2%) and by 2.2% to 25.1% (from 22.9%), respectively, compared with the same periods last year. The increase in gross profit and gross profit percentage were due to higher sales volumes of core and co-products as well as lower raw material cost per tonne as a result of timing of strategic purchases of potash.

Gross profit for the quarter ended September 30, 2010 decreased by \$1.2 million (or 6.9%) to \$16.3 million (from \$17.5 million) compared with the previous quarter ended June 30, 2010. Gross margin as a percentage of sales for the quarter ended September 30, 2010 decreased by 2.6% to 23.8% (from 26.4%) compared with the previous quarter ended June 30, 2010. Decrease in gross profit and gross profit margin is due to slightly lower selling prices on core and co-products as a result of lower potash cost per tonne.

***Selling Expenditures***

Selling expenditures for the quarter and six months ended September 30, 2010 increased by \$1.0 million (or 85.2%) to \$2.1 million (from \$1.1 million) and \$2.6 million (or 149.6%) to \$4.4 million (from \$1.8 million), respectively, compared with the same periods last year. Selling expenditures as a percentage of sales for the quarter and six months ended September 30, 2010 increased by 1.4% to 3.0% (from 1.6%) and 1.9% to 3.3% (from 1.4%), respectively, compared with the same periods 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 September 30, 2010 decreased by \$0.3 million (or 12.7%) to \$2.1 million (from \$2.4 million) compared with the previous quarter ended June 30, 2010. Selling expenditures as a percentage of sales for the quarter ended September 30, 2010 decreased by 0.6% to 3.0% (from 3.6%) compared with the previous quarter ended June 30, 2010.

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

***General and Administrative Expenditures***

General and administrative expenditures for the quarter and six months ended September 30, 2010 increased by \$0.7 million (or 47.2%) to \$2.3 million (from \$1.6 million) and \$1.7 million (or 51.0%) to \$5.0 million (from \$3.3 million), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and six months ended September 30, 2010 increased by 1.0% to 3.3% (from 2.3%) and 1.1% to 3.7% (from 2.6%), respectively, compared with the same periods 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 September 30, 2010 decreased by \$0.4 million (or 16.3%) to \$2.3 million (from \$2.7 million) compared with the previous quarter ended June 30, 2010. General and administrative expenditures as a percentage of sales for the quarter ended September 30, 2010 decreased by 0.8% to 3.3% (from 4.1%) compared with the previous quarter ended June 30, 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 and six months ended September 30, 2010 increased by \$1.0 million (or 80.5%) to \$2.3 million (from \$1.3 million) and \$1.9 million (or 63.9%) to \$4.8 million (from \$2.9 million), respectively, compared with the same periods last year. Income taxes as a percentage of sales for the quarter and six months ended September 30, 2010 increased by 1.5% to 3.4% (from 1.9%) and by 1.3% to 3.6% (from 2.3%), respectively, compared with the same periods last year. Effective tax rate for the quarter and six months ended September 30, 2010 increased by 10.0% to 21.8% (from 11.8%) and by 8.5% to 21.7% (from 13.2%), respectively, compared with the same periods last year.

Income taxes for the quarter ended September 30, 2010 decreased by \$0.2 million (or 6.0%) to \$2.3 million (from \$2.5 million) compared with the previous quarter ended June 30, 2010. Income taxes as a percentage of sales for the quarter ended September 30, 2010 decreased by 0.3% to 3.4% (from 3.7%) compared with the previous quarter ended June 30, 2010. Effective tax rate for the quarter ended September 30, 2010 increased by 0.2% to 21.8% (from 21.6%) compared to the previous quarter ended June 30, 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. In addition, certain corporate and international expansion costs are currently not tax deductible in China nor being utilized in Canada due to lack of revenue.

### *Earnings*

Net earnings for the quarter and six months ended September 30, 2010 decreased by \$1.3 million (or 13.5%) to \$8.3 million (from \$9.6 million) and \$1.9 million (or 10.1%) to \$17.2 million (from \$19.1 million), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and six months ended September 30, 2010 decreased by 2.1% to 12.1% (from 14.2%) and by 2.3% to 12.8% (from 15.1%), respectively, compared with the same periods 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, increased general and administrative expenditures, and higher effective tax rate.

Net earnings for the quarter ended September 30, 2010 decreased by \$0.6 million (or 7.0%) to \$8.3 million (from \$8.9 million) compared with the previous quarter ended June 30, 2010. Net earnings as a percentage of sales for the quarter ended September 30, 2010 decreased by 1.4% to 12.1% (from 13.5%) compared with the previous quarter ended June 30, 2010. Decrease in net earnings and net earnings percentage compared to the

previous quarter is due to slightly lower selling prices on core and co-products and reduced sales of compound fertilizer due to its seasonality.

### ***Earnings per Share***

Earnings per share was \$0.16 (\$0.16 fully diluted) and \$0.33 (\$0.33 fully diluted) for the quarter and six months ended September 30, 2010, respectively, compared with \$0.21 (\$0.20 fully diluted) and \$0.41 (\$0.41 fully diluted) for the same periods last year, representing a decrease of \$0.05 (or 23.8%) and \$0.08 (or 19.5%), respectively. The decrease in earnings per share is due to lower selling prices 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 September 30, 2010 decreased by \$0.01 (or 5.9%) to \$0.16 (from \$0.17) compared with the previous quarter ended June 30, 2010. The decrease in earnings per share compared to the previous quarter was due to slightly lower selling prices on core and co-products and reduced sales of compound fertilizer due to its seasonality.

The total stock-based compensation expense for the quarter and six months ended September 30, 2010 was \$0.3 million and \$0.6 million, respectively, resulting in a decrease of \$Nil (\$Nil fully diluted) and \$0.01 (\$0.01 fully diluted) on earnings per share.

### ***EBITDA (please see table 3)***

EBITDA for the quarter and six months ended September 30, 2010 increased by \$0.2 million (or 1.5%) to \$12.5 million (from \$12.3 million) and by \$0.8 million (or 3.4%) to \$25.7 million (from \$24.9 million), respectively, compared with the same periods last year. EBITDA as a percentage of sales for the quarter and six months ended September 30, 2010 increased by 0.1% to 18.2% (from 18.1%) and decreased by 0.5% to 19.1% (from 19.6%), respectively, compared with the same periods last year. The increase in EBITDA and EBITDA percentage is due to higher sales volumes of core and co-products products as well as lower raw material cost per tonne. The decrease in EBITDA percentage for the six months ended September 30, 2010 compared to the same period last year is a result of lower selling prices of core and co-products and increased general and administrative expenditures.

EBITDA for the quarter ended September 30, 2010 decreased by \$0.8 million (or 6.2%) to \$12.5 million (from \$13.3 million) compared with the previous quarter ended June 30 2010. EBITDA as a percentage of sales for the quarter ended September 30, 2009 decreased by 1.8% to 18.2% (from 20.0%) compared with the previous quarter ended June 30, 2010. Decrease in EBITDA and EBITDA percentage were due to slightly lower selling prices on core and co-products and reduced sales of compound fertilizer due to its seasonality.

**Table 8 - Liquidity and Capital Resources***(in thousands of Canadian dollars except for ratios)*

	<b>September 30, 2010</b>	<b>March 31, 2010</b>
<b>Current Ratio</b>	3.28 : 1	3.52 : 1
<b>Cash</b>	87,801	60,221
<b>Net Cash<sup>1</sup></b>	37,325	18,790
<b>Working Capital</b>	210,654	189,451
<b>Total Assets</b>	388,647	343,976
<b>Total Debt</b>	92,417	75,470
<b>Total Equity</b>	296,230	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

The Canadian dollar/RMB foreign exchange rate used to translate the assets and liabilities was 6.6055 at September 30, 2010, compared to 6.7204 at March 31, 2010, representing 1.7% appreciation in RMB. For the quarter ended September 30, 2010, net assets would have been 1.7% lower if using the same rate as at the end of the period ended March 31, 2010.

***Cash Position***

Cash and cash equivalents totalled \$87.8 million as of September 30, 2010, representing an increase of \$27.6 million and a decrease of \$8.4 million compared with the balances as of March 31, 2010 and June 30, 2010, respectively. The decrease for the quarter ended September 30, 2010 is a result of \$3.1 million net proceeds from bank loans, \$0.2 million proceeds from exercise of stock options, offset by \$6.8 million cash outflow from operations (increase in non-cash working capital), \$1.2 million foreign exchange loss, and \$3.7 million invested in capital assets and construction mainly for the expansion of Shanghai Migao and SQM JV.

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 \$210.7 million as of September 30, 2010, representing an increase of \$21.2 million and \$3.4 million compared with balances as of March 31, 2010 and June 30, 2010, respectively. This latter increase is primarily attributable to \$2.1 million increase in restricted cash, \$7.1 million increase in accounts receivable, \$23.4 million increase in prepayments, deposits and other assets, \$0.2 million decrease in net income taxes

payable, and offset by \$8.4 million decrease in cash and cash equivalents, \$0.4 million decrease in net future income tax assets, \$10.2 million decrease in inventory, \$6.4 million increase in accounts payable and accrued liabilities and notes payables, \$1.6 million increase in customer deposits, and \$2.4 million increase in loans.

Restricted cash increased by \$2.1 million or 18.7% at September 30, 2010 compared to the balance at June 30, 2010. Restricted cash increased due to an increase in notes payables, resulting in banks requiring additional cash deposits as pledge for notes payables.

Accounts receivable increased by \$7.1 million or 20.6% at September 30, 2010 compared to the balance at June 30, 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 September 30, 2010 and June 30, 2010 were 51 and 49 days respectively. The Company had no bad debt expense in the quarter ended September 30, 2010.

Prepayments, deposits and other assets increased by \$23.4 million or 52.4% at September 30, 2010 compared to the balance at June 30, 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 to build inventory for the new Shanghai and SQM JV plants.

Total inventory decreased by \$10.2 million or 10.1% at September 30, 2010 compared to the balance at June 30, 2010. Inventory decreased due to increased sales of certain products and the timing of raw material purchases and deliveries.

At the end of the period, the Company had \$63.9 million (188,051 tonnes) of potassium chloride inventory with an average delivered price of \$340 per tonne, of which 59,050 tonnes were on hand and the remainder in transit. In addition, during the quarter, the Company sold 24,593 tonnes of potassium nitrate, 82,285 tonnes of potassium sulphate including 29,908 of lower grade potassium sulphate, 20,269 tonnes of potassium chloride, and at the end of the period, the Company had \$6.5 million (43,747 tonnes) of finished goods inventory on hand, including co-products.

Accounts payable and accrued liabilities and notes payables increased by \$6.4 million or 25.7% at September 30, 2010 compared to the balance at June 30, 2010 due to the management’s efforts to better manage the working capital in current market conditions.

Customer deposits increased by \$1.6 million or 24.0% at September 30, 2010 compared to the balance at June 30, 2010. This increase is as a result of new contracts for deliveries in future quarters.

Loans increased by \$2.4 million or 5.0% at September 30, 2010 compared to the balance at June 30, 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 \$57.8 million at September 30, 2010 compared with \$55.8 million and \$59.5 million as of March 31, 2010 and June 30, 2010, respectively.

Construction in progress was \$5.3 million at September 30, 2010, compared with \$2.4 million and \$2.2 million as of March 31, 2010 and June 30, 2010, respectively. 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 \$19.9 million at September 30, 2010 compared with \$19.4 million and \$20.3 million as of March 31, 2010 and June 30, 2010, respectively. The slight decrease is mainly due to unrealized foreign exchange losses on land use rights experienced during the quarter.

***Contractual Obligation Summary***

- Purchase contracts dominated in RMB for raw materials and supplies in the amount of approximately \$84.5 million exist as of September 30, 2010. Purchase contracts dominated in US\$ for finished goods in the amount of approximately \$3.4 million exist as of September 30, 2010. They were entered into in the normal course of business.
- Commitments on capital expenditures in the amount of approximately \$6.2 million exist as of September 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 \$4.6 million exists as of September 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 September 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, KMPG 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 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 November 11, 2010, there were:

- 52,220,661 common shares outstanding.
- 1,615,000 stock options outstanding, with exercise prices of between \$2.85 to \$9.93, and weighted average remaining life of 3.12 years. 1,175,000 of these stock options are exercisable as of November 11, 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 September 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 \$28,595 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 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 to resume in the spring of 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 will be completed 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.

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 on schedule to be completed in the last quarter of calendar 2010.

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 six months ended September 30, 2010, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$3.7 million and \$6.2 million, respectively. 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 November 11, 2010.

	<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
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
<b>Total</b>		<b>320,000</b>		<b>332,800</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 first six months of fiscal 2011, the Company has achieved a gross profit of 25.1%. The inputs into the Company’s production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its raw material costs, variable production costs, and customer contract negotiations.

Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at November 11, 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 September 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 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. 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:

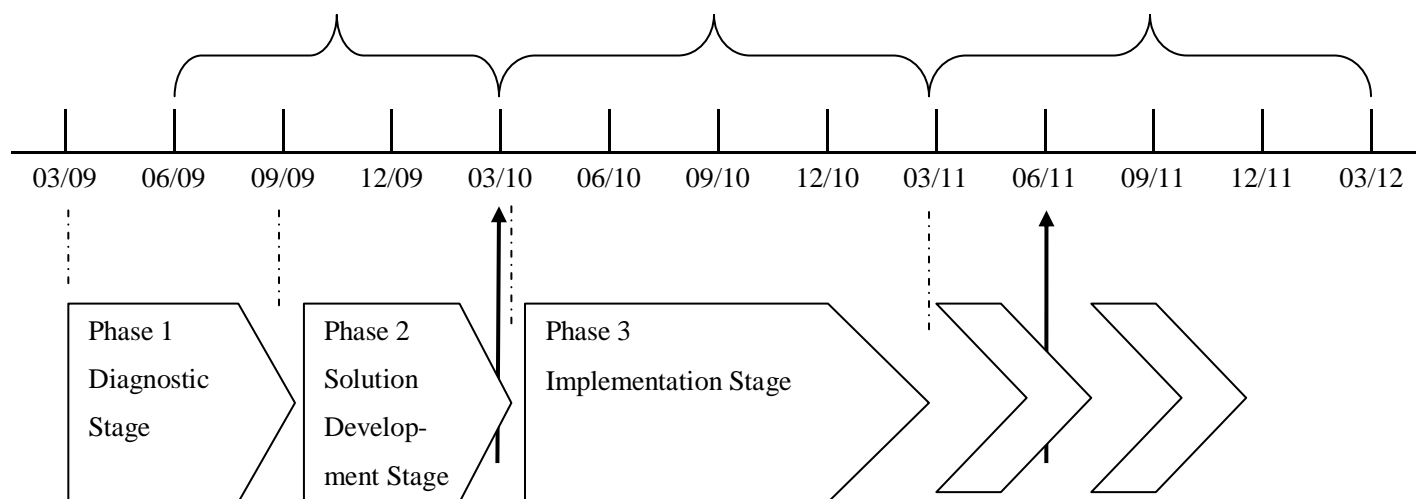
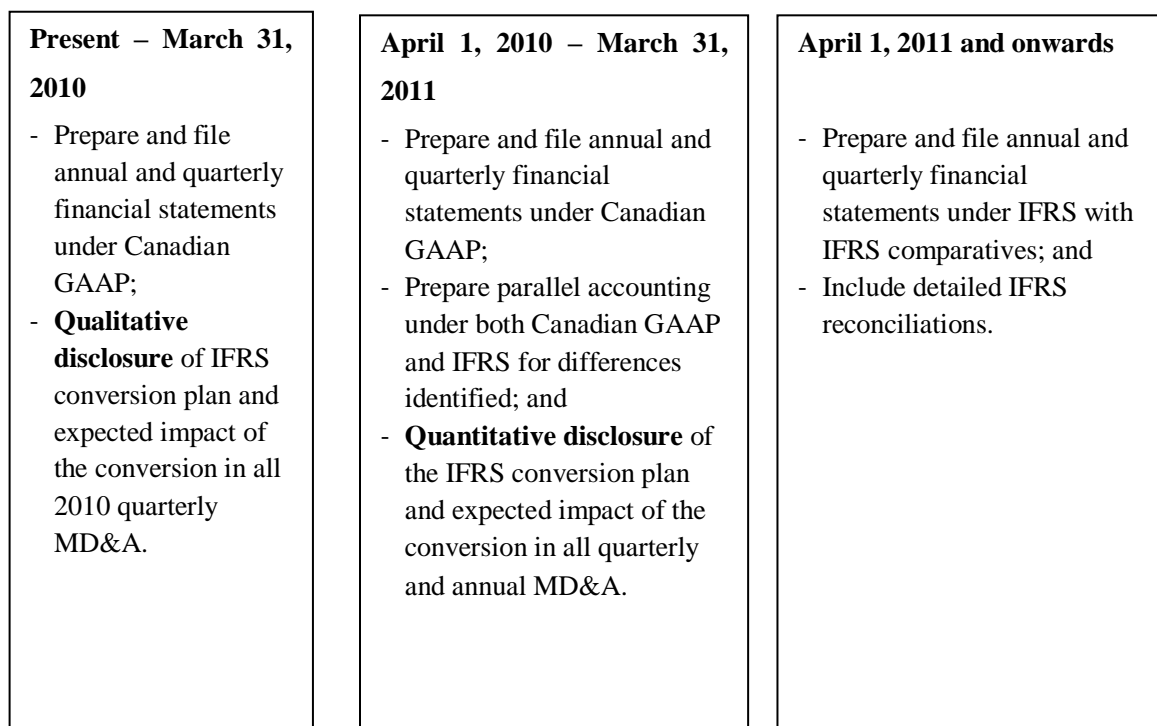
**Impairment of long-lived assets** - Under Canadian GAAP, when the Company determines that an asset group’s carrying amount exceeds its undiscounted estimated future cash flows, it recognizes an impairment loss, measured as the amount by which that carrying amount exceeds the asset group’s fair value.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

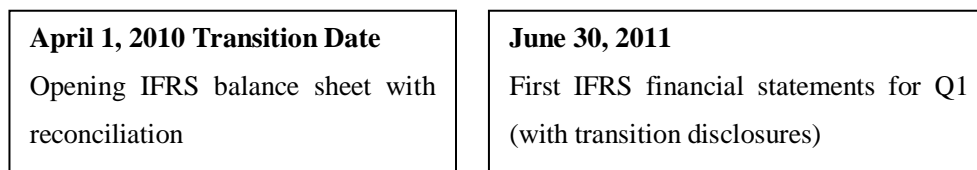
In addition, the format of the Company’s financial statements, and the volume of disclosure it provides, will change in numerous respects. The Company is making various changes to its controls and processes to better align with the requirements of IFRS, but these are not extensive.

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**



## **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.