

Migao Corporation

Management’s Discussion and Analysis

**First Quarter, Fiscal 2012
Ended June 30, 2011**

September 7, 2011

The following is Management’s Discussion and Analysis (“MD&A”) of the financial condition of Migao Corporation (the “Company” or “Migao”) and its financial performance for the three months ended June 30, 2011. 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, 2011 and the audited Consolidated Financial Statements and related notes as at and for the year ended March 31, 2011. 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 International Financial Reporting Standards (“IFRS”) for the first time this quarter.

At June 30, 2011, the Company had 52,738,061 common shares outstanding. As at market open on September 7, 2011, the Company has 52,722,361 common shares outstanding.

Forward-Looking Information

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

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

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

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

Overview

Migao, through its wholly-owned operating subsidiaries (referred to herein as “Sichuan Migao”, “Guangdong Migao”, “Liaoning Migao”, “Shanghai Migao”, “Changchun Migao”, “Tianjin Migao”, “Zunyi Migao”), and through its 50% ownership of SQM JV, owns land use rights and operates fertilizer production plants in various strategic locations in the People’s Republic of China (the “PRC”) for the production and sale of specialty potash fertilizer (potassium nitrate and potassium sulphate along with their co-products), specialty compound fertilizers, granulated potassium chloride, and standard potassium chloride. 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 IFRS in this MD&A, we use the term earnings before interest, taxes, depreciation and amortization (“EBITDA”). EBITDA is not defined by IFRS, 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 IFRS. 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 25, 2011, the Company announced that it has negotiated with Potash Export Company (“PEC”) for the refund of the prepayment advanced prior to March 31, 2011. PEC has agreed to refund the entire US\$ 100 million prepayment. The first US\$ 30 million has now been refunded. The balance will be refunded as follows: \$US 35 million by October 31, 2011 and \$US 35 million by December 31, 2011. The volume and price terms of the potash agreement will remain in effect and the Company will negotiate financials prepayment terms on a date closer in time to the initial delivery of potash.

On June 8, 2011, the Company reported net income of \$34.5 million or \$0.66 per basic share from revenues of \$317.0 million for the year ended March 31, 2011. These results represent an increase of 17.8% and a decrease of 9.9% over revenue and net income of the same period in 2010, respectively. Effective for the quarter ended June 30, 2012, the Company is preparing its financial statements in accordance with International Financial Reporting Standards (“IFRS”). As a result, the comparative March 31, 2011 numbers have been revised to comply with IFRS and details of the adjusted numbers are discussed under the Transitional Financials Impact section.

On June 15, 2011, the Company announced that the Toronto Stock Exchange (“TSX”) has accepted its notice of intention to make a normal course issuer bid (“NCIB”). The notice provides that the company may, during the 12-month period commencing June 17, 2011, purchase up to 2,640,000 or approximately 4.99% of the

Company’s outstanding common shares. The Company intends that purchases will be funded out of its available cash, and that any common shares acquired pursuant to the NCIB will be cancelled. The Company believes that the purchase of its common shares is a worthwhile, value added use of its resources.

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, 2011, compared with the same period last year.

Table 1 - Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	Fiscal	Fiscal				Fiscal		
	2012	2011				2010 ¹		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	100,521	117,624	64,604	68,455	66,256	75,461	67,034	67,684
Gross profit	17,162	20,568	16,556	16,286	17,499	18,090	15,607	14,349
Gross profit (% of revenues)	17.1%	17.5%	25.6%	23.8%	26.4%	24.0%	23.3%	21.2%
Selected operating expenses:								
Selling	2,530	3,064	2,426	2,065	2,366	2,537	1,762	1,115
General and administrative	3,989	4,402	3,027	2,745	3,223	2,694	2,804	1,556
Stock-based compensation²	-	-	-	-	-	371	391	391
Finance costs	737	36	606	648	748	640	523	364
Pre-operating costs	238	313	756	364	246	57	114	56
Other income	113	26	188	59	229	212	57	15
Income taxes	2,031	3,958	1,797	2,276	2,423	1,469	1,364	1,284
Income taxes (% of revenues)	2.0%	3.4%	2.8%	3.3%	3.7%	1.9%	2.0%	1.9%
Effective tax rate (% of income before taxes)	20.7%	30.9%	18.0%	21.8%	21.6%	12.3%	13.5%	11.8%
Net income	7,767	8,834	8,188	8,153	8,777	10,426	8,706	9,598
Net income (% of revenues)	7.7%	7.5%	12.7%	11.9%	13.2%	13.8%	13.0%	14.2%
EBITDA	12,155	14,266	11,961	12,448	13,276	13,499	11,618	12,262
EBITDA (% of revenues)	12.1%	12.1%	18.5%	18.2%	20.0%	17.9%	17.3%	18.1%
Earnings per share (in \$):								
Basic	0.15	0.17	0.16	0.16	0.17	0.20	0.18	0.21
Diluted	0.15	0.17	0.16	0.16	0.17	0.20	0.18	0.20

¹Information for 2010 fiscal year is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

²Stock-based compensation is included as part of general and administrative expenses under IFRS.

Table 2 - Results of Operations*Consolidated Results*

The following table sets out the Company’s consolidated results for the quarter ended June 30, 2011, compared with the same period last year.

<i>In thousands of Canadian dollars except per share and percentage data</i>	Q1 2012	Q1 2011	Increase (Decrease)	% Increase (Decrease)
Revenues	100,521	66,256	34,265	51.7%
Gross profit	17,162	17,499	(337)	(1.9%)
Gross profit (% of revenues)	17.1%	26.4%	(9.3%)	(35.2%)
Selling expenses	2,530	2,366	164	6.9%
Selling expenses (% of revenues)	2.5%	3.6%	(1.1%)	(30.6%)
G & A	3,989	3,223	766	23.8%
G & A (% of revenues)	4.0%	4.9%	(0.9%)	(18.4%)
Other income	113	229	(116)	(50.7%)
Other income (% of revenues)	0.1%	0.3%	(0.2%)	(66.7%)
Income taxes	2,031	2,423	(392)	(16.2%)
Income taxes (% of revenues)	2.0%	3.7%	(1.7%)	(45.9%)
Effective tax rate (% of net income before taxes)	20.7%	21.6%	(0.9%)	(4.2%)
EBITDA	12,155	13,276	(1,121)	(8.4%)
EBITDA (% of revenues)	12.1%	20.0%	(7.9%)	(39.5%)
Net income (loss)	7,767	8,776	(1,009)	(11.5%)
Net income (loss) (% of revenues)	7.7%	13.2%	(5.5%)	(41.7%)
Earnings per share				
Basic	0.15	0.17	(0.02)	(11.8%)
Diluted	0.15	0.17	(0.02)	(11.8%)
Weighted average number of common shares outstanding				
Basic	52,863,830	52,140,661		
Diluted	52,863,830	52,559,446		

Table 3 - Reconciliation to Canadian GAAP Net Income

The following table sets out the reconciliation of the Company’s consolidated IFRS net income to earning measure not recognized under IFRS, specifically EBITDA, for the quarter ended June 31, 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 2012	Q1 2011
Net Income	7,767	8,776
Add:		
Amortization	1,620	1,329
Interest Expense	737	748
Income Tax Expense	2,031	2,423
EBITDA	12,155	13,276

Revenues**Table 4**

<i>Average Foreign Exchange Rates</i>	Q1 2012	Q4 2011	Q1 2011
RMB to Canadian dollars	0.1489	0.1498	0.1506
Canadian dollars to RMB	6.7159	6.6741	6.6401

Table 5

<i>Revenues (in thousands)</i>	Q1 2012	Q4 2011	Q1 2011
Revenues in RMB	675,088	785,029	440,042
Revenues in CDN\$	100,521	117,624	66,256

Revenues were \$100.5 million (RMB 675.1 million) for the quarter ended June 30, 2011 compared with \$66.3 million (RMB 440.0 million) for the same period last year, representing an increase of \$34.2 million (RMB 235.1 million) or 51.7% (53.4% in RMB). The increase in revenue for the quarter ended June 30, 2011 is mainly due to higher selling prices on potassium chloride, potassium sulphate, and potassium nitrate, as well as higher sales volumes of potassium chloride and compound fertilizers. The high level of potassium chloride sales was due to market demand and the Company’s desire to reduce raw potassium chloride levels as a result of its long term potassium chloride supply arrangement with Potash Export Company and its supply commitment to Silvinit for calendar 2011. Average selling price was RMB 5,106 and RMB 4,669 per tonne for potassium nitrate and RMB 3,507 and RMB 2,915 per tonne for potassium sulphate for the quarters ended June 30, 2011 and 2010, respectively. Average selling price for the quarter ended June 30, 2011 increased by approximately RMB 437 per tonne for potassium nitrate and RMB 592 per tonne for potassium sulphate over the same period last year primarily as a result of increased global potassium chloride prices. However,

production volume for potassium sulphate and potassium nitrate for the quarter ended June 30, 2011 decreased by 30,740 tonnes over the same period last year mainly due to increased maintenance shutdowns at certain facilities. The annual run rate for the core products was at 380,000 tonnes as of June 30, 2011, compared with 320,000 tonnes as of June 30, 2010.

During the quarter, Migao did not produce or sell any lower grade potassium sulphate (lower potassium oxide content) due to higher demand for higher grade potassium sulphate compared with 13,172 tonnes for the same period last year. These lower grade 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, 2011 decreased by \$17.1 million (RMB 109.9 million) or 14.5% compared with the previous quarter ended March 31, 2011. The decreased revenue is mainly due to lower sales volume of potassium sulphate, potassium chloride, value added potassium chloride, and compound fertilizers. Average selling price for the quarter ended June 30, 2010 increased by approximately RMB 341 per tonne for potassium nitrate and by RMB 123 per tonne for potassium sulphate compared with the previous quarter ended March 31, 2011 due to market conditions. Production volume for potassium sulphate and potassium nitrate for the quarter ended June 30, 2011 decreased by 12,569 tonnes compared with the previous quarter ended March 31, 2011.

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, 2011 decreased by \$1.1 million compared to the same period last year as a result of foreign exchange. Revenues for the quarter ended June 30, 2011 decreased by \$0.6 million compared with the previous quarter ended March 31, 2011 due to foreign exchange.

Table 6 - The following is a summary of the Company’s facilities and production capacities as of June 30, 2011.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
SQM JV ¹	Potassium Nitrate	20,000	Ammonium Chloride	11,200	January 2011
Guangdong	Potassium Sulphate	160,000	Hydrochloric Acid	192,000	December 2004
Liaoning	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Changchun	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2007
Shanghai	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	January 2011
Total		380,000		392,000	

	Other Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Compound Fertilizer	100,000	January 2010
Liaoning	Sulphuric Acid	120,000	TBD based on final production certificate for co-generation

¹The SQM JV output capacity is 40,000 tonnes. The chart shows only the Company’s proportionate share.

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 June 30, 2011.

Core Product	Quarterly Design Capacity (tonnes)	Volume Produced During the Quarter (tonnes)	Deliveries During the Quarter (tonnes)
Potassium Nitrate	25,000	20,378	24,191
Potassium Sulphate	70,000	49,871	69,262
Potassium Sulphate (lower grade)	N/A	Nil	Nil
Potassium Chloride and Value Added Potassium Chloride	N/A	Nil	57,317
Total	95,000	70,249	150,770

Other Product	Quarterly Design Capacity (tonnes)	Volume Produced During the Quarter (tonnes)	Deliveries During the Quarter (tonnes)
Compound Fertilizer ¹	25,000	21,735	22,817

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 \$17.2 million for the quarter ended June 30, 2011 compared to \$17.5 million for the same period last year, representing a decrease of \$0.3 million (or 1.9%). Gross margin as a percentage of sales for the quarter ended June 30, 2011 decreased by 9.3% to 17.1% (from 26.4%) compared with the same period last year. The decrease in gross profit and gross profit margin as a percentage of sales were mainly due to increasing potash cost per tonne, higher direct sales of lower margin potassium chloride, and reduced output as a result of maintenance shutdowns at certain facilities. In addition, gross profit and gross margin as a

percentage of sales for the quarter ended June 30, 2011 were negatively impacted by the slower than anticipated start-ups of the Shanghai and SQM joint venture facilities. Both facilities were in start-up mode and not at full efficient capacity for the entire quarter. The Shanghai facility has had difficulty obtaining all the required safety and environmental certificates from the local government. The Company believes that all the certificates should be in place by the end of the second quarter. The Shanghai facility produced 3,252 tonnes during the quarter. In addition, the SQM joint venture experienced some manufacturing equipment issues, which are now solved. Migao’s share of SQM joint venture’s production was 3,324 tonnes of potassium nitrate during the quarter.

Gross profit for the quarter ended June 30, 2011 decreased by \$3.4 million (or 16.6%) to \$17.2 million (from \$20.6 million) compared with the previous quarter ended March 31, 2011. Gross margin as a percentage of sales for the quarter ended June 30, 2011 decreased by 0.4% to 17.1% (from 17.5%) compared with the previous quarter ended March 31, 2011. The decrease in gross profit and gross margin as a percentage of sales compared with the previous quarter is due to increasing potash cost per tonne and reduced output as a result of maintenance shutdowns at certain facilities.

Table 8 - The following is a summary of the Company’s gross margin by products for the quarter ended June 30, 2011.

Core Product	Q1 2012	Q4 2011	F2011
Potassium Nitrate ¹	15.3%	26.2%	22.5%
Potassium Sulphate ¹	17.8%	26.6%	26.2%
Compound	31.0%	22.9%	19.1%
Potassium Chloride	10.4%	12.4%	15.0%

¹Includes co-products

Selling Expenditures

Selling expenditures for the quarter ended June 30, 2011 increased by \$0.1 million (or 6.9%) to \$2.5 million (from \$2.4 million) compared with the same period last year. Selling expenditures as a percentage of sales for the quarter ended June 30, 2011 decreased by 1.1% to 2.5% (from 3.6%) compared with the same period last year. The increases in selling expenditures is 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 also increased as a result of the start-ups of the Shanghai and SQM joint venture facilities.

Selling expenditures for the quarter ended June 30, 2011 decreased by \$0.6 million (or 17.4%) to \$2.5 million (from \$3.1 million) compared with the previous quarter ended March 31, 2011. Selling expenditures as a percentage of sales for the quarter ended June 30, 2011 decreased by 0.1% to 2.5% (from 2.6%) compared with the previous quarter ended March 31, 2011.

Selling expenditures include transportation and related costs incurred for delivery of goods to customers by the sales department. Excluding transportation cost, the majority of selling costs are fixed. For the quarter ended June 30, 2011, selling expenditures also include selling expenses for the Shanghai and SQM joint venture facilities.

General and Administrative Expenditures

General and administrative expenditures for the quarter ended June 30, 2011 increased by \$0.8 million (or 23.8%) to \$4.0 million (from \$3.2 million) compared with the same period last year. General and administrative expenditures as a percentage of sales for the quarter ended June 30, 2011 decreased by 0.9% to 4.0% (from 4.9%) compared with the same period last year.

General and administrative expenditures for the quarter ended June 30, 2011 decreased by \$0.4 million (or 9.4%) to \$4.0 million (from \$4.4 million) compared with the previous quarter ended March 31, 2011. General and administrative expenditures as a percentage of sales for the quarter ended June 30, 2011 increased by 0.3% to 4.0% (from 3.7%) compared with the previous quarter ended March 31, 2011.

General and administrative expenses have increased from the same period last year as a result of costs associated with conversion to IFRS, international and China based expansion. 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, 2011 decreased by \$0.4 million (or 16.2%) to \$2.0 million (from \$2.4 million) compared with the same period last year. Income taxes as a percentage of sales for the quarter ended June 30, 2011 decreased by 1.7% to 2.0% (from 3.7%) compared with the same period last year. Effective tax rate for the quarter ended June 30, 2011 decreased by 0.9% to 20.7% (from 21.6%) compared with the same period last year.

Income taxes for the quarter ended June 30, 2010 decreased by \$2.0 million (or 48.7%) to \$2.0 million (from \$4.0 million) compared with the previous quarter ended March 31, 2011. Income taxes as a percentage of sales for the quarter ended June 30, 2010 decreased by 1.4% to 2.0% (from 3.4%) compared with the previous quarter ended March 31, 2011. Effective tax rate for the quarter ended June 30, 2011 decreased by 10.2% to 20.7% (from 30.9%) compared with the previous quarter ended March 31, 2011. The decrease in income taxes compared to the previous quarter is partly because of certain year-end tax adjustments that had increased income taxes for the quarter ended March 31, 2011.

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.

Table 9 - The following is a step analysis of the Company’s effective tax rate for the quarter ended June 30, 2011.

	Q1 2012	Q4 2011
Profitable PRC Subsidiaries	19.3%	19.7%
Start-up PRC Subsidiaries	0.0%	0.0%
Corporate Entities	2.4%	2.5%
Deferred Taxes	(1.0%)	8.7%
Total	20.7%	30.9%

Earnings

Net earnings for the quarter ended June 30, 2011 decreased by \$1.0 million (or 11.5%) to \$7.8 million (from \$8.8 million) compared with the same period last year. Net earnings as a percentage of sales for the quarter ended June 30, 2011 decreased by 5.5% to 7.7% (from 13.2%) compared with the same period last year. The decreases in net earnings and net earnings as a percentage of sales are mainly due to increasing potash cost per tonne, higher direct sales of lower margin potassium chloride, and reduced output as a result of maintenance shutdowns at certain facilities. Net earnings were also impacted by start-up and new project facilities. For the quarter ended June 30, 2011, the impact to net income was \$0.6 million compared to \$0.3 for the same period last year.

Net earnings for the quarter ended June 30, 2011 decreased by \$1.0 million (or 12.1%) to \$7.8 million (from \$8.8 million) compared with the previous quarter ended March 31, 2011. Net earnings as a percentage of sales for the quarter ended June 30, 2011 increased by 0.2% to 7.7% (from 7.5%) compared with the previous quarter ended March 31, 2011. The decrease in net earnings is due to increasing potash cost per tonne and reduced output as a result of maintenance shutdowns at certain facilities. The increase in net earnings percentage is mainly due to higher selling prices on potassium sulphate, potassium nitrate, and potassium chloride, higher sales volumes of potassium nitrate, lower direct sales volume of lower margin potassium chloride, lower selling and general and administrative expenditures as a percentage of revenue, and lower income taxes compared to the previous quarter.

Earnings per Share

Earnings per share was \$0.15 (\$0.15 fully diluted) for the quarter ended June 30, 2011 compared with \$0.17 (\$0.17 fully diluted) for the same period last year, representing a decrease of \$0.02 (or 11.8%). The decrease

in earnings per share is due to increasing potash cost per tonne, higher direct sales of lower margin potassium chloride, and reduced output as a result of maintenance shutdowns at certain facilities. Earnings per share were also impacted by net losses at start-up and new project facilities. For the quarter ended June 30, 2011, the impact to earnings per share as a result of losses at start-up and new project facilities was \$0.01 compared to \$Nil for the same period last year. In addition, the Company’s weighted average number of common shares outstanding is higher than the prior year quarter, which contributes to the decreases in earnings per share.

Earnings per share for the quarter ended June 30, 2011 decreased by \$0.02 (or 11.8%) to \$0.15 (from \$0.17) compared with the previous quarter ended March 31, 2011. The decrease in earnings per share compared to the previous quarter was due to increasing potash cost per tonne and reduced output as a result of maintenance shutdowns at certain facilities.

EBITDA (please see table 1 & 3)

EBITDA for the quarter ended June 30, 2011 decreased by \$1.1 million (or 8.5%) to \$12.2 million (from \$13.3 million) compared with the same period last year. EBITDA as a percentage of sales for the quarter ended June 30, 2011 decreased by 7.9% to 12.1% (from 20.0%) compared with the same period last year. The decrease in EBITDA and EBITDA percentage for the quarter was mainly due to increasing potash cost per tonne, higher direct sales of lower margin potassium chloride, and reduced output as a result of maintenance shutdowns at certain facilities. EBITDA was also impacted by net losses at start-up and new project facilities.

EBITDA for the quarter ended June 30, 2011 decreased by \$2.1 million (or 14.9%) to \$12.2 million (from \$14.3 million) compared with the previous quarter ended March 31, 2011. EBITDA as a percentage of sales for the quarter ended June 30, 2011 remained the same at 12.1% compared with the previous quarter ended March 31, 2011. The decrease in EBITDA was mainly due to increasing potash cost per tonne and reduced output as a result of maintenance shutdowns at certain facilities

Table 10 - Liquidity and Capital Resources

<i>(in thousands of Canadian dollars except for ratios)</i>	June 30, 2011	March 31, 2011
Current Ratio	3.24 :1	2.44 : 1
Cash	20,486	26,007
Net Cash¹	(29,731)	(20,150)
Working Capital	212,677	116,734
Total Assets	410,936	386,762
Total Debt	98,781	83,326
Total Equity	312,155	303,436
Long Term Bank Debt to Equity Ratio	0 : 1	0 : 1

¹ Cash and cash equivalents less bank and other loans (excluding transaction costs)

The Canadian dollar/RMB foreign exchange rate used to translate the assets and liabilities was 6.7024 at June 30, 2011, compared to 6.7340 at March 31, 2011, representing 0.5% appreciation in RMB.

Cash Position

Cash and cash equivalents totalled \$20.5 million as of June 30, 2011, representing a decrease of \$5.5 million compared with the balance as of March 31, 2011. The decrease for the quarter ended June 30, 2011 is a result of \$3.8 million net proceeds from bank loans, \$0.1 million offs foreign exchange gain, offset by \$0.6 million cash outflow from operations (increase in non-cash working capital), \$0.7 million payment for NCIB, \$8.1 million invested in capital assets, construction mainly for the expansion of Changchun Migao, and land use rights.

Migao has approximately \$0.6 million of land use rights payable.

The Company believes that its current cash position, working capital and cash flow is sufficient to meet the current ongoing needs of the business, which includes budgeted production expansion activities and budgeted production levels. As a result of long standing and strong credit relationships, Shanghai Pudong development bank has provided Migao working capital lines of credit of approximately RMB 189 million and project financing lines of credit of approximately RMB 137 million.

Working Capital

Working capital was \$212.7 million as of June 30, 2011, representing an increase of \$95.9 million compared with the balance as of March 31, 2011. This increase is primarily attributable to \$28.9 million increase in trade receivables, \$9.6 million increase in restricted cash, \$82.8 million increase in prepayments, deposits and other assets, \$2.1 million decrease in customer deposits, \$2.0 million decrease in net income taxes payable, and offset by \$5.5 million decrease in cash and cash equivalents, \$6.6 million decrease in inventory, \$0.1 million decrease in net due from joint venture partner, \$13.2 million increase in accounts payable and accrued liabilities and notes payables, and \$4.1 million increase in loans.

Trade receivables increased by \$28.9 million or 62.4% at June 30, 2011 compared to the balance at March 31, 2011. Trade receivables 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 June 30, 2011 and March 31, 2011 were 55 and 48 days respectively. The Company had no bad debt expense in the quarter ended June 30, 2011.

Restricted cash increased by \$9.6 million or 104.7% at June 30, 2011 compared to the balance at March 31, 2011. Restricted cash increased due to banks requiring additional cash deposits as pledge for notes payables and loans.

Prepayments, deposits and other assets increased by \$82.8 million or 143.4% at June 30, 2011 compared to the balance at March 31, 2011. Prepayments, deposits and other receivables mainly increased as a result of the

Company having negotiated with PEC for a full refund of the prepayments of US\$ 100.0 million advanced during the previous quarter. As such, the Company has re-classed the US\$ 100.0 million from long term to current assets in the Company’s consolidated balance sheets as of June 30, 2011. In addition, prepayment, deposits and other assets also increased as a result of the increase in the Company’s VAT receivable and advances made to the PRC government, which was partially offset by a decrease in prepayments for inventory and vendor refund compared to the previous quarter.

Customer deposits decreased by \$2.1 million or 20.4% at June 30, 2011 compared to the balance at March 31, 2011. Customer deposits decreased as a result of the timing of contracts.

Total inventory decreased by \$6.6 million or 11.7% at June 30, 2011 compared to the balance at March 31, 2011. Inventory decreased due to the timing of raw material purchases and deliveries.

At the end of the period, the Company had \$35.7 million (81,436 tonnes) of potassium chloride inventory with an average delivered price of \$438 per tonne, of which 33,852 tonnes were on hand and the remainder in transit. In addition, during the quarter, the Company sold 24,191 tonnes of potassium nitrate, 69,262 tonnes of potassium sulphate, 22,817 tonnes of compound, 57,317 tonnes of potassium chloride, and at the end of the period, the Company had \$8.9 million (43,459 tonnes) of finished goods inventory on hand, including co-products.

Accounts payable and accrued liabilities and notes payables increased by \$13.2 million or 64.9% at June 30, 2011 compared to the balance at March 31, 2011 due to the management’s efforts to better manage the working capital in current market conditions.

Loans increased by \$4.1 million or 8.7% at June 30, 2011 compared to the balance at March 31, 2011 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 \$75.7million at June 30, 2011 compared with \$71.1 million as of March 31, 2011. The balance consist of the construction costs attributable to additional capacity at Changchun and Zunyi Migao.

Land use rights net of accumulated amortization was \$21.1 million at June 30, 2011 compared with \$19.1million as of March 31, 2011. The increase is mainly due to the addition of a new land use right in Changchun Migao during the quarter.

Contractual Obligation Summary

- Purchase contracts dominated in RMB for raw materials and supplies in the amount of approximately \$91.0 million exist as of June 30, 2011. They were entered into in the normal course of business.

- Commitments on capital expenditures in the amount of approximately \$10.6 million exist as of June 30, 2011. They were entered into in the normal course of business.
- Commitment to contribute cash in return for interest in the SQM JV in the amount of \$4.3 million exists as of June 30, 2011. 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, 2011 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Internal Control over Financial Reporting

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has reviewed the organizational structure of the accounting group in the PRC and with the approval of the Audit Committee has retained KPMG LLP to assist in the strengthening of its resources to reflect the Company’s growth plans. KPMG LLP will assist in Internal Audit, Internal Controls review and implementation, other support services, and continued compliance under NI52-109. These services will be critical for the Company’s development of new production facilities, joint venture production facility, and its developing international expansion plans. KPMG LLP commenced their work during the quarter ended September 30, 2009 with a review of the corporate office and the four operating facilities. During the quarter ended March 31, 2010, KPMG LLP performed testing at the corporate office and Sichuan Migao and made various recommendations for improvements. The Company has implemented the recommendations in certain aspects of the Company’s system of internal controls, including formalizing approval and review processes by using checklists and initialing source documents, and performing reconciliations and other accounting worksheets on a more consistent basis. During the quarter ended March 31, 2011, KPMG LLP reviewed controls and performed testing at the corporate office and China based facilities.

The Company plans on expanding the scope of reviews during fiscal 2012 with KPMG to include procedural review, documentations, and risk management.

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.

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.

Other than minor changes related to our IFRS transition plan, there have been no changes in our internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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 September 7, 2010, there were:

- 52,722,361 common shares outstanding.
- 945,000 stock options outstanding, with exercise prices of between \$6.38 to \$9.93, and weighted average remaining life of 4.13 years. 773,333 of these stock options are exercisable as of September 7, 2011.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the quarter ended June 30, 2011, Liaoning Yongcheng Economic and Trade Development Co. Ltd. (“LYEDC”) contributed administrative services to the Company and because the value of these services was immaterial, these contributed services were not recognized in the consolidated financial statements. The services provided by LYEDC are administrative services such as secretarial, language translations, travel arrangements in China, and raw materials co-ordination

LYEDC is controlled by an officer and director of Migao.

Proposed Transactions

Migao is not a party to any proposed transaction or proposed asset or business acquisition or disposition, with the exception of the expansion plans described below, that may have an effect on the financial condition, results of operations or cash flows.

Outlook

Based on market information and estimates of Chinese speciality potash fertilizer companies, management believes Migao is positioned to become the leading producer of specialty potash fertilizer in the Chinese market. As China's citizens continue to benefit from strong economic growth, demand for improved crop yield, higher quality food and increased variety is fuelling the growth of the fertilizer market in China. The Company’s specialty fertilizers increase yield, enhance the quality of the crops they are applied to, and provide a higher return to farmers, allowing the Company to continue experiencing high demand for its potash-based products in the PRC.

Global demand and controlled supply for potassium chloride (“MOP”) has resulted in significant changes in the Company’s raw material costs. China’s government has responded to volatile fertilizer costs by announcing and implementing several policies including those affecting fertilizer exports from China and selling prices of MOP and compound fertilizers within China. The policies are an effort to ensure adequate domestic supply of fertilizer and food, and to the extent possible, moderate upswings in food prices. No policies have been announced or implemented to directly restrict the selling price of specialty potash fertilizers within China.

To accelerate revenue growth, the Company has undertaken the following projects to expand production capacity either at existing locations or by building facilities at new locations:

Sichuan Migao

Sichuan Migao is currently operating at its full production nameplate capacity of 80,000 tonnes of potassium nitrate per year. During calendar 2008, the facility added the capability to produce potassium nitrate in an upgraded form and phase-in production began in December 2008. In addition, a 100,000 tonne per year compound fertilizer facility was constructed and test batch production began in March 2009. The first deliveries of products from the compounding facility occurred during the fourth quarter of fiscal 2010. The upgraded potassium nitrate and the specialty compound fertilizer facility allow the Company to increase its competitive advantage.

Guangdong Migao

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

Changchun Migao

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

Liaoning Migao

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

Joint Venture with SQM

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

Shanghai Migao

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

Zunyi Migao

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

incorporate processing improvements learned from the Sichuan compounding facility. The new location with increased amount of land will accommodate further expansion beyond the planned 100,000 tonne facility.

Tianjin Migao

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

International Expansion

The Company is currently reviewing and performing due diligence to expand outside of China. This expansion outside of China is to open up international markets without the penalty of the current 105% export tax. On March 31, 2010, Migao Singapore was incorporated. The Singapore subsidiary was established to become the base for the Company’s international expansion starting in South East Asia. Migao has limited project management resources to execute all expansion plans. Future expansions will have to be prioritized based on profitability and payback.

Capital Expenditure Summary

For the quarter ended June 30, 2011, the total capital expenditure paid for all of the expansion projects noted above as well as plant and equipment additions was \$8.1 million. For the year ended March 31, 2012, the approved capital expenditure budget is approximately \$20 million. The approved budget includes maintenance capital expenditures and capital expenditures for projects disclosed above.

Table 13 - The following is a summary of the Company’s facilities and expected production capacities as of September 7, 2011.

	Core Product	Annual Capacity (tonnes)	Co-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
SQM JV	Potassium Nitrate	20,000	Ammonium Chloride	11,200	January 2011
Guangdong	Potassium Sulphate	160,000	Hydrochloric Acid	192,000	December 2004
Liaoning	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Changchun	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2007
Shanghai	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	January 2011
Total		380,000		392,000	

	Other Products	Annual Capacity (tonnes)	Production Commencement
Sichuan	Compound Fertilizer	100,000	January 2010
Liaoning	Sulphuric Acid	120,000	TBD based on final production certificate for co-generation

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 quarter ended June 30, 2011, the Company has achieved a gross profit of 17.1%. The decrease in gross profit for this quarter was mainly due to increasing potash cost per tonne, higher direct sales of lower margin potassium chloride, and reduced output as a result of maintenance shutdowns at certain facilities. In addition, gross profit was negatively impacted by the slower than anticipated start-ups of the Shanghai and SQM joint venture facilities. Both facilities were in start-up mode and not at full efficient capacity for the entire quarter. The Shanghai facility has had difficulty obtaining all the required safety and environmental certificates from the local government. The Company believes that all the certificates should be in place by the end of the second quarter. The Shanghai facility produced 3,252 tonnes during the quarter. In addition, the SQM joint venture experienced some manufacturing equipment issues, which are now solved. Migao’s share of SQM joint venture’s production was 3,324 tonnes of potassium nitrate during the quarter. Quarterly margin may be above or below the annual guidance range as a result of the timing of price negotiations and retroactive increases. 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 September 7, 2011.

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

Critical Accounting Policies

This MD&A should be read in conjunction with the Company’s unaudited consolidated financial statements for the quarter ended June 30, 2011 and the audited consolidated financial statements for the year ended March 31, 2011 and the notes thereto. Those Consolidated Financial Statements outline the accounting principles and policies used to prepare our financial statements. 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.

The judgments that management has applied in the application of accounting policies and related estimates that have the most significant effect on the amounts recognized are discussed in note 2 of the Company’s June 30, 2011 condensed interim financial statements.

Effective 2011, Canadian reporting issuers are required to prepare their financial statements under IFRS, rather than under Canadian GAAP. The Company was required to adopt IFRS for the year beginning April 1, 2011, including providing IFRS-compliant comparative information for 2010. The three months ended June 30, 2011 is the first reporting period under IFRS for the Company. IFRS uses a conceptual framework similar to Canadian GAAP, but significant differences exist in many aspects of recognition, measurement and disclosures.

The IFRS conversion project consisted of three phases: Diagnostic; Solution Development; Implementation and Execution. We have now completed the IFRS conversion project through implementation and execution reflecting management’s accounting choices, developed financial statements including note disclosures, assessed and selected key accounting policy decisions.

The notes to the consolidated interim financial statements for the quarter ended June 30, 2011 provide more details on our key Canadian GAAP to IFRS differences, our accounting policy decisions and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on our financial statements on transition to IFRS or may have an impact in future periods.

TRANSITIONAL FINANCIAL IMPACT***Impact on equity***

As a result of the policy choices we have selected and the changes we were required to make under IFRS, we have recorded a reduction in our equity of approximately \$0.4 million as at April 1, 2010. The table below (in thousands) outlines adjustments to our equity on adoption of IFRS on April 1, 2010, and at June 30, 2010 and March 31, 2011 for comparative purposes.

Reconciliation of equity at March 31, 2011 and April 1, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		March 31, 2011			April 1, 2010		
Assets							
Current assets							
Cash and cash equivalents		\$26,007	\$ -	\$26,007	\$60,221	\$ -	\$ 60,221
Restricted cash		9,201	-	9,201	13,819	-	13,819
Trade receivables		46,345	-	46,345	36,649	-	36,649
Prepayments, deposits & other assets		57,757	-	57,757	30,743	-	30,743
Inventory		56,600	-	56,600	120,181	-	120,181
Due from related party		-	-	-	28	-	28
Due from joint venture partner		1,730	-	1,730	1,270	-	1,270
Deferred tax assets	17 (b)	1,715	(1,715)	-	1,859	(1,859)	-
		199,355	(1,715)	197,640	264,770	(1,859)	262,911
Prepayments, deposits and other assets		96,255	-	96,255	904	-	904
Plant and equipment	17 (d)(e)	66,237	4,877	71,114	55,748	2,167	57,915
Construction in progress	17 (c)	5,644	(5,644)	-	2,339	(2,339)	-
Land use rights		19,525	(386)	19,139	19,386	(317)	19,069
Deferred tax assets	17 (b)	653	1,961	2,614	829	1,942	2,771
Total assets		\$387,669	\$(907)	\$386,762	\$343,976	\$(406)	\$343,570
Liabilities and Shareholders' Equity							
Current liabilities							
Loans		\$46,578	\$ -	\$46,578	\$ 40,831	\$ -	\$ 40,831
Accounts payable and accrued liabilities		10,353	-	10,353	10,591	-	10,591
Notes payables		9,944	-	9,944	13,813	-	13,813
Customer deposits		10,154	-	10,154	7,219	-	7,219
Income taxes payable		2,661	-	2,661	1,734	-	1,734
Due to joint venture partner		1,216	-	1,216	-	-	-
Deferred tax liabilities	17 (b)	2,364	(2,364)	-	1,131	(1,131)	-
		83,270	(2,364)	80,906	75,319	(1,131)	74,188
Deferred tax liabilities	17 (b)(f)	56	2,364	2,420	151	1,131	1,282
		83,326	-	83,326	75,470	-	75,470
Shareholders' Equity							
Share capital		155,417	-	155,417	152,230	-	152,230
Contributed surplus		5,721	-	5,721	5,702	-	5,702
Retained earnings		151,233	(7,113)	144,120	116,780	(6,612)	110,168
Foreign currency translation reserve	17 (a)	(8,028)	6,206	(1,822)	(6,206)	6,206	-
Total equity		304,343	(907)	303,436	268,506	(406)	268,100
Total liabilities and equity		\$387,669	\$(907)	\$386,762	\$343,976	\$(406)	\$343,570

Reconciliation of equity at June 30, 2010 :

		Canadian GAAP	Effect of transition to IFRS	IFRS
	<i>Notes</i>		June 30, 2010	
Assets				
Current assets				
Cash and cash equivalents		\$96,173	\$ -	\$96,173
Restricted cash		11,320	-	11,320
Trade receivables		34,208	-	34,208
Prepayments, deposits and other assets		44,663	-	44,663
Inventory		100,953	-	100,953
Due from related party		29	-	29
Income taxes receivable		383	-	383
Deferred tax assets	<i>17 (b)</i>	1,700	(1,700)	-
		289,429	(1,700)	287,729
Prepayments, deposits and other assets		1,771	-	1,771
Plant and equipment	<i>17 (d)(e)</i>	59,467	1,810	61,277
Construction in progress	<i>17 (c)</i>	2,150	(2,150)	-
Land use rights		20,293	(335)	19,958
Deferred tax assets	<i>17 (b)(f)</i>	863	1,825	2,688
Total assets		\$373,973	\$(550)	\$373,423
Liabilities and Shareholders' Equity				
Current liabilities				
Loans		\$47,610	\$ -	\$47,610
Accounts payable and accrued liabilities		13,760	-	13,760
Notes payables		11,318	-	11,318
Customer deposits		6,446	-	6,446
Income taxes payable		2,098	-	2,098
Deferred tax liabilities	<i>17 (b)</i>	985	(985)	-
		82,217	(985)	81,232
Deferred tax liabilities	<i>17 (b)(f)</i>	171	985	1,156
		82,388	-	82,388
Shareholders' Equity				
Share capital		152,230	-	152,230
Contributed surplus		6,000	-	6,000
Retained earnings		125,701	(6,756)	118,945
Foreign currency translation reserve	<i>17 (a)</i>	7,654	6,206	13,860
Total equity		291,585	(550)	291,035
Total liabilities and equity		\$373,973	\$(550)	\$373,423

Impact on comprehensive income

As a result of the policy choices we have selected and the changes we were required to make under IFRS, we have also recorded a reduction in our comprehensive income of approximately \$0.1 million and \$0.5 million for the three months ended June 30, 2010 and the year ended March 31, 2011, respectively.

Reconciliation of operation and comprehensive income for the year ended March 31, 2011 and for the three months ended June 30, 2010:

<i>Note</i>	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$316,937	\$ -	\$316,937	\$66,256	\$ -	\$66,256
Revenues						
	246,030	-	246,030	48,757	-	48,757
Cost of goods sold						
	70,907	-	70,907	17,499	-	17,499
Gross profit						
Operating expenses						
Selling	9,921	-	9,921	2,366	-	2,366
General and administrative	17(c)(d) 11,575	1,821	13,396	2,736	487	3,223
Stock-based compensation	17 (c) 1,069	(1,069)	-	298	(298)	-
Pre-operating costs	1,679	-	1,679	246	-	246
Finance costs	17 (e) 2,126	(88)	2,038	750	(2)	748
Foreign exchange gain	(29)	-	(29)	(54)	-	(54)
Other income	(502)	-	(502)	(229)	-	(229)
	25,839	664	26,503	6,113	187	6,300
Profit before income taxes	45,068	(664)	44,404	11,386	(187)	11,199
Provision for income taxes	17 (f) (10,615)	163	(10,452)	(2,465)	42	(2,423)
Profit for the year	34,453	(501)	33,952	8,921	(145)	8,776
Other comprehensive income:						
exchange difference on translation of foreign operations	(1,822)	-	(1,822)	13,860	-	13,860
Total other comprehensive income	(1,822)	-	(1,822)	13,860	-	13,860
Total comprehensive income for the year	\$32,631	\$(501)	\$32,130	\$22,781	\$(145)	\$22,636
Earnings per share:						
Basic (C\$)	\$0.66		\$0.65	\$0.17		\$0.17
Diluted (C\$)	\$0.65		\$0.64	\$ 0.17		\$0.17

Impact on cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the company except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating. The Company has classified interest as an operating activity in the statement of cash flows.

Business Activities and Key Performance Measures

The Company has assessed the impact of the IFRS transition project on our financial covenants and key ratios. The transition did not significantly impact the Company’s covenants and key ratios.

Information Technology and Systems

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

Post-Implementation

We will continue to monitor changes in IFRS in future periods. We note that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, we expect that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, leases and revenue recognition. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

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 29, 2011, 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.