

MIGAO CORPORATION
Annual Information Form
(with respect to the year ended September 30, 2007)

January 14, 2008

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS	ii
CURRENCY	iii
GLOSSARY	iv
CORPORATE STRUCTURE	1
INTERCORPORATE RELATIONSHIPS	1
GENERAL DEVELOPMENT OF THE BUSINESS	1
RECENT DEVELOPMENTS	1
THE BUSINESS	3
FERTILIZER PRODUCTION FACILITIES.....	3
RESEARCH AND DEVELOPMENT	9
PRODUCTS.....	12
OPERATIONS	13
INDUSTRY OVERVIEW	16
COMPETITION.....	17
CHEMICAL FERTILIZER MARKET ANALYSIS.....	18
CHINA’S DOMESTIC CHEMICAL FERTILIZER MARKET SITUATION	19
BUSINESS OBJECTIVES	20
EMPLOYEES	20
MATERIAL CONTRACTS	21
RISK FACTORS	21
COMPANY RISK FACTORS	21
RISKS OF DOING BUSINESS IN CHINA	26
DIRECTORS AND OFFICERS	30
PENALTIES AND SANCTIONS.....	31
CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES.....	31
PERSONAL BANKRUPTCIES.....	32
DIVIDENDS	32
DESCRIPTION OF CAPITAL STRUCTURE	32
MARKET FOR SECURITIES	33
AUDIT COMMITTEE INFORMATION	33
AUDIT COMMITTEE CHARTER	33
COMPOSITION OF THE AUDIT COMMITTEE	33
RELEVANT EDUCATION AND EXPERIENCE	33
EXTERNAL AUDITOR SERVICE FEES.....	34
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	34
PROMOTERS	34
TRANSFER AGENT AND REGISTRAR	35
EXPERTS	35
ADDITIONAL INFORMATION	35
SCHEDULE “A” – AUDIT COMMITTEE CHARTER	

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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”, “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 may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: execution of the business plan; 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 fluctuation; insurance; foreign operations; weather conditions and natural disasters; control by management; seasonality; dividends; conflicts of interest; 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 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” section hereof and elsewhere in our filings with Canadian securities regulatory authorities. 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 will be consistent with these forward-looking statements, and the differences may be material. The forward-looking statements included in this Annual Information Form are, unless otherwise indicated, made as of September 30, 2007 and are expressly qualified in their entirety by this cautionary language.

CURRENCY

Unless otherwise indicated, in this Annual Information Form all references to “dollars” or the use of the symbol “\$” are to Canadian dollars, all references to “US dollars” or “US\$” are to United States dollars, and all references to “RMB” are to Renminbi, the legal currency in China.

I. Canadian Dollar/RMB Exchange Rates

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for translating dollars into RMB based on rates quoted by the Bank of Canada website. No representation is made that dollars could be converted into RMB at that rate or any other rate.

One Canadian dollar expressed in RMB

Year ended December 31	Average During Period
2004	6.3573
2005	6.7613
2006	7.0323
January 1 to September 30, 2007	6.9406

II. US Dollar/Canadian Dollar Exchange Rates

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for translating US dollars into dollars based on rates quoted by the Bank of Canada website. No representation is made that US dollars could be converted in dollars at that rate or any other rate.

One US dollar expressed in Canadian dollars

Year ended December 31	Average During Period
2004	1.3015
2005	1.2116
2006	1.1341
January 1 to September 30, 2007	1.1048

III. US Dollar/RMB Exchange Rates

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for translating US dollars into RMB constructed from rates quoted by the Bank of Canada website. No representation is made that US dollars could be converted in RMB at that rate or any other rate.

One US dollar expressed in RMB

Year ended December 31	Average During Period
2004	8.2740
2005	8.1920
2006	7.9753
January 1 to September 30, 2007	7.6680

GLOSSARY

Unless otherwise indicated or the context otherwise indicates, the following definitions are used in this Annual Information Form:

“**2006 Management Information Circular**” means the information circular of the Company dated April 10, 2006.

“**AIF**” means this Annual Information Form.

“**Changchun Migao**” means Migao Chemical (Changchun) Co., Ltd., a WFOE.

“**Company**” means Migao Corporation, including its consolidated subsidiaries unless the context otherwise requires.

“**EITL**” has the meaning ascribed thereto under “The Business – Fertilizer Production Facilities – Taxation”.

“**Fiscal 2006**” means the Company’s fiscal year which commenced October 1, 2005 and ended September 30, 2006.

“**Fiscal 2007**” means the Company’s fiscal year which commenced October 1, 2006 and ended September 30, 2007.

“**Guangdong Migao**” means Guangdong Migao Chemical Co., Ltd., a WFOE.

“**HK Migao**” means H.K. Migao Industry Limited, a corporation incorporated under the laws of Hong Kong and wholly-owned by the Company.

“**Hong Kong**” means Hong Kong, Special Administration Region of the PRC.

“**Liaoning Migao**” means Liaoning Migao Chemical Co., Ltd., a WFOE.

“**LYDEC**” means Liaoning Yongcheng Economic & Trade Development Co., Ltd.

“**Migao Group**” means the Wholly Foreign Owned Enterprises owned by HK Migao and the predecessors of such enterprises.

“**OBCA**” means the *Business Corporations Act* (Ontario), as amended, supplemented, modified, replaced or restated from time to time.

“**PRC**” or “China” means the People’s Republic of China.

“**Reverse Take-over**” means the reverse take-over of the Company by HK Migao on May 18, 2006 pursuant to a three-cornered amalgamation under the laws of Hong Kong among the Company, HK Migao and Main Pacific Limited, a Hong Kong subsidiary of the Company.

“**RMB**” means the currency of the PRC, being Renminbi.

“**SCGC**” means Sichuan Chemical Group Company.

“**Shanghai Migao**” means Migao Chemical Industry (Shanghai) Co., Ltd., a WFOE.

“**Sichuan Migao**” means Sichuan Migao Chemical Fertilizer Co., Ltd., a WFOE.

“**Tianjin Migao**” means Migao Chemical (Tianjin) Co., Ltd., a WFOE.

“**Tonne**” means a metric ton of 1,000 kilograms.

“**TSX**” means the Toronto Stock Exchange.

“**TSXV**” means the TSX Venture Exchange.

“**2006 Private Placement**” has the meaning ascribed thereto under “Recent Developments”.

“**2007 Private Placement**” has the meaning ascribed thereto under “Recent Developments”.

“**Wholly Foreign Owned Enterprises**” or “**WFOEs**” means wholly foreign owned limited liability enterprises pursuant to the laws of the PRC.

“**Zunyi Migao**” means Migao Chemical (Zunyi) Co., Ltd., a WFOE.

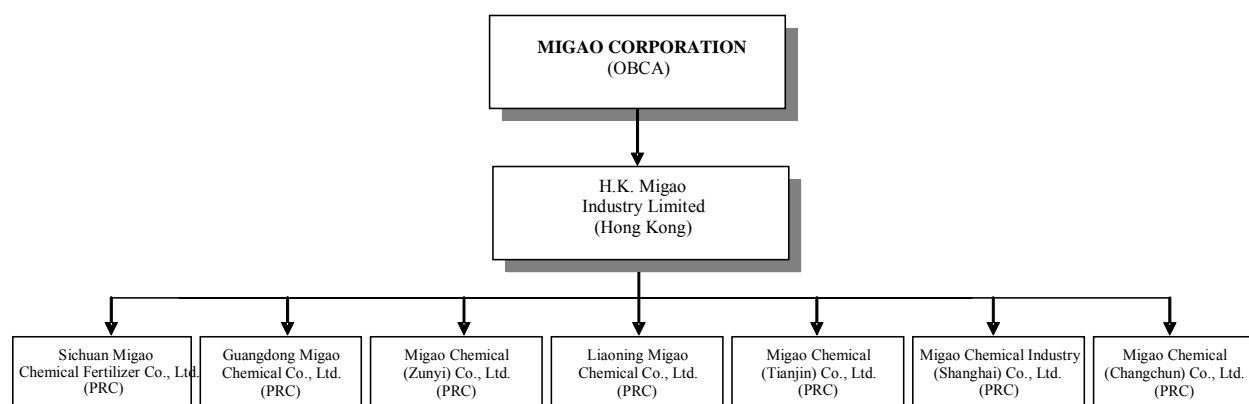
Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and the financial data and other information contained in this AIF are presented as at September 30, 2007.

CORPORATE STRUCTURE

The Company was incorporated by articles of incorporation as 1273561 Ontario Inc. on December 29, 1997 under the laws of the Province of Ontario and changed its name to Fox Mountain Explorations Ltd. on June 5, 1998. On May 18, 2006, the Company was the object of a reverse take-over by HK Migao, at which time the Company was renamed Migao Corporation and its common shares were consolidated on a 1 for 17 basis. The Company's head office is located at 8 King Street East, Suite 1108, Toronto, Ontario, M5C 1B5. The registered office is at the same address. The Company has a September 30 year end.

Intercorporate Relationships

The following diagram indicates the relationships among Migao and its significant subsidiaries. Each subsidiary is 100% owned.



GENERAL DEVELOPMENT OF THE BUSINESS

Pursuant to the Reverse Take-over in May 2006, the Company, through its wholly owned (direct and indirect) subsidiaries, is now a manufacturer of potash based fertilizers in China, the primary products being potassium nitrate and potassium sulphate. The Company also produces ammonium chloride and hydrochloric acid on a co-product basis.

The Company's wholly owned subsidiary HK Migao, incorporated under the laws of Hong Kong on August 24, 2005, in turn owns seven subsidiaries in the PRC engaged in the chemical fertilizer and chemical products business. Sichuan Migao was established on June 6, 2003 and operates in the southwest of China. Guangdong Migao was established on April 30, 2004 and is engaged in business in the Pearl River Delta in southern China. Liaoning Migao was established on January 14, 2005 and operates in northeastern China. Shanghai Migao was established on September 26, 2006 to operate in the Yangtze River Delta near Shanghai. Changchun Migao was established on December 4, 2006 and operates in Jilin Province in northeastern China. Zunyi Migao, located in Guizhou Province in southern China, was established on August 9, 2007. Tianjin Migao was established on September 29, 2007 and is located approximately 130 kilometres from Beijing.

Recent Developments

On May 18, 2006, the Company completed the Reverse Take-over transaction whereby it acquired on an arm's length basis all of the outstanding shares of HK Migao, including those issued concurrently on a private placement by HK Migao (the "2006 Private Placement"). Prior to the Reverse Take-over, the common shares of the Company were consolidated on a 1 for 17 basis. In conjunction with the Reverse Take-over, the Company issued 20,400,000 common shares to the original shareholders of HK Migao and an additional 6,363,000 common shares to

subscribers under the 2006 Private Placement, which placement involved the issuance of 6,363,000 units for gross proceeds of \$18,134,550. The units were priced at \$2.85 per unit and were comprised of one common share and one half of one common share purchase warrant. Each warrant entitles a holder to purchase one common share of the Company at an exercise price of \$3.70 until May 18, 2008. The agents for the financing received compensation warrants to purchase 445,410 of such units at a price of \$2.85 per unit until May 18, 2008. Upon completion of the Reverse Take-over and the 2006 Private Placement, the Company had approximately 27,265,000 common shares outstanding. The financing was carried out to fund expansion of the production capacity of the Company's manufacturing facilities in China. A Form 51-102F4 was not filed in connection with the Reverse Take-over as the transaction was described in the 2006 Management Information Circular.

On May 25, 2006 the Company was listed on the TSXV.

In June 2006, 1,846,612 common shares of the Company were issued at \$3.40 per share upon the conversion of long-term debt in the amount of \$6,278,482 due to a related party. The debt had been held by LYDEC, of which Mr. Liu Guocai, the Chairman, Chief Executive Officer and President of the Company, holds a 75% ownership interest.

On February 22, 2007 the Company completed a bought deal private placement financing whereby 6,025,000 units were issued at a price of \$4.15 per unit for aggregate gross proceeds of approximately \$25 million (the "**2007 Private Placement**"). Each unit consisted of one common share of the Company and one half of one common share purchase warrant, each warrant entitling the holder to purchase an additional common share at a price of \$5.30 per share, until February 22, 2009. The net proceeds of approximately \$23,133,000 are being used to continue adding capacity at existing plant locations in China, constructing a new facility near Shanghai and to secure new sites across China. The underwriters for the financing received compensation warrants to purchase 301,250 of such units at a price of \$4.15 per unit until February 22, 2009.

On May 10, 2007 the Company graduated to the TSX from the TSXV.

As further described below, at September 30, 2006, the Company had 120,000 tonnes of (annual) design production capacity. Subsequently the Company completed an expansion of 60,000 tonnes of potassium sulphate production capacity at Guangdong Migao and 40,000 tonnes of potassium nitrate production capacity at Sichuan Migao, and the new 40,000 tonne potassium sulphate facility at Changchun Migao resulting in design production capacity of 260,000 tonnes as at November 2007. Further expansion activity includes a 40,000 tonne potassium sulphate facility to be constructed at the Shanghai Migao location. The Shanghai Migao construction is scheduled to be completed mid-2008.

On August 29, 2007 the Company announced that it would be constructing a new potassium sulphate fertilizer production facility in Zunyi, Guizhou. Zunyi Migao's first construction phase is scheduled to be completed by the end of 2008 with capacity to produce 40,000 tonnes. The second phase of construction for an additional 40,000 tonnes of annual potassium sulphate fertilizer production is scheduled to be completed by the end of 2009.

On September 24, 2007 the Company announced that it would be constructing a new potassium sulphate fertilizer production facility in Tianjin, China. Tianjin Migao's first construction phase is scheduled to be completed by the end of 2008 with capacity to produce 40,000 tonnes. The second phase of construction for an additional 40,000 tonnes of annual potassium sulphate fertilizer production is scheduled to be completed by the end of 2009.

As of September 30, 2007, there were 37,040,428 common shares outstanding.

THE BUSINESS

Fertilizer Production Facilities

Summary

The first phase of Migao Group's initial fertilizer plant was Sichuan Migao in Chengdu City, Sichuan Province, PRC which commenced operations at the end of 2003, with the second phase of the plant commencing operations in September 2004. Sichuan Migao produces potassium nitrate with ammonium chloride as a co-product. Sichuan Migao uses a low energy, re-circulation process that it developed and for which a patent has been applied in the PRC, as described below. The plant is profitable and has been operating at or above its original design capacity. Sichuan Migao achieved \$35.3 million in revenues and \$4.6 million in net profit for Fiscal 2007.

Migao Group's second fertilizer plant was built and is operated by Guangdong Migao in Foshan City, Guangdong Province, PRC and produces powdered potassium sulphate along with hydrochloric acid as a co-product. This plant was completed and put into operation at the end of 2004. As is the case with Sichuan Migao's plant, Guangdong Migao's plant is profitable and has been operating at or above its original design capacity. For Fiscal 2007, this plant had revenues of \$40.7 million and net profit of \$5.5 million.

Liaoning Migao is Migao Group's third fertilizer plant. Located in Yingkou City, Liaoning Province, PRC this facility was completed and put into operation in December of 2005. This plant produces both granular and powdered potassium sulphate, in each case with hydrochloric acid as a co-product. For Fiscal 2007, this plant had revenues of \$25.8 million and net profit of \$3.7 million.

Migao Group's plants are strategically located based on a number of criteria including access to sea and/or rail ports, proximity to customers and local infrastructure.

Characteristics of Potassium-based Fertilizer

Both potassium nitrate fertilizer and potassium sulphate fertilizer increase quality and yield for high value crops, such as tobacco, vegetable crops and temperate and tropical fruit crops, particularly those which are either chloride-sensitive or have a high sulphur requirement. Sichuan Migao, Guangdong Migao and Liaoning Migao have all entered into arrangements with large state-owned tobacco consortia for a significant portion of their respective total 2008 fertilizer output as described below.

Off-take Agreements

On August 25, 2005, Sichuan Migao entered into a contract for the supply of potassium nitrate with Yunnan Tobacco Industry Co., Ltd. ("**Yunnan Tobacco**") providing for the sale by Sichuan Migao to Yunnan Tobacco of 40,000 tonnes of potash fertilizer annually from 2006 to 2010. The sales volume of 40,000 tonnes per annum for five years represents 50% of the output of Sichuan Migao.

On August 1, 2007, Guangdong Migao entered into a Contract of Potassium Sulphate Supply with Yunnan Tobacco to supply 41,000 tonnes of potassium sulphate to Yunnan Tobacco by August 1, 2008. Guangdong Migao currently produces 100,000 tonnes of potassium sulphate annually.

Between April 1 and August 1, 2007, Liaoning Migao entered into agreements to supply potassium sulphate to Yunnan Tobacco and Hebei Tianren Chemical Co. Ltd. Under these agreements, Liaoning Migao will supply a total of more than 40,000 tonnes of potassium sulphate over a one year period from entering into the agreements. Liaoning Migao produces at least 40,000 tonnes of potassium sulphate annually.

Based on the customary industry practices in the PRC, management of Migao Group expects the annual contracts for Guangdong Migao and Liaoning Migao to be renewed annually. This has been the experience with Sichuan Migao, which has had three principal customers that have historically renewed their contracts on an annual basis on similar terms, with adjustments on renewal to reflect the then-prevailing market conditions. On that basis, all of

Migao Group's existing production capacity for potassium nitrate and all of Migao Group's existing production capacity for potassium sulphate from its plants have been sold into the spring of 2008.

The Company's plan is to continue to expand production capacity at existing facilities and to build additional plants at new locations with a goal of becoming the largest China-based supplier of specialty potash-based fertilizers. International markets represent a significant opportunity for the Company; however, the Company remains focused on addressing market demand in China. During 2007, the Company implemented a strategy to address demand from export markets and supplied small quantities of potassium sulphate to markets such as Japan and India. These two markets have expressed strong demand for specialty fertilizers. As part of the strategy, the Company focused on supplying large, sophisticated companies in those markets in order to establish commercial relationships so that when the Company has production capacity in place to serve export markets, the commercial relationships will have been established.

The annual specialty potash capacity for Migao Group was 260,000 tonnes at the end of 2007, and is scheduled to increase to 380,000 tonnes by the end of 2008, and further increase to 460,000 tonnes by the end of 2009. The following is a summary of the Company's existing and planned facilities and design production capacities:

	Core Product	Annual Capacity⁽¹⁾ (tonnes)	Co-Product	Annual Capacity⁽¹⁾ (tonnes)	Production Commencement
Sichuan					
- Phase I	Potassium Nitrate	20,000	Ammonium Chloride	11,200	December 2003
- Phase II	Potassium Nitrate	20,000	Ammonium Chloride	11,200	September 2004
- Phase III (Stage I)	Potassium Nitrate	20,000	Ammonium Chloride	11,200	November 2006
- Phase III (Stage II)	Potassium Nitrate	20,000	Ammonium Chloride	11,200	October 2007
Guangdong					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2004
- Phase II (stage I)	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	November 2006
- Phase II (stage II)	Potassium Sulphate	20,000	Hydrochloric Acid	24,000	January 2007
Liaoning					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Shanghai					
- Phase I	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	Mid-2008 (to be completed)
Changchun					
- Phase I	Potassium Sulphate	20,000	Hydrochloric Acid	24,000	November 2007
- Phase 2	Potassium Sulphate	20,000	Hydrochloric Acid	24,000	December 2007
Tianjin					
- Phase 1	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	Late 2008 (to be completed)
- Phase 2	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	Late 2009 (to be completed)
Zunyi					
- Phase 1	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	Late 2008 (to be completed)
- Phase 2	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	Late 2009 (to be completed)
Total		460,000		500,800	

Notes:

- (1) "Annual Capacity" denotes the design capacities of the facilities. Actual production has been exceeding design capacity by approximately 10% annually.

Sichuan Migao Chemical Fertilizer Co., Ltd.

Sichuan Migao was established under the laws of the PRC on June 6, 2003 as a sino-foreign joint venture. Sichuan Migao is focused on the production and sale of high quality agricultural potassium nitrate and the co-product agricultural ammonium chloride.

Sichuan Migao's production facility is located in Chengdu, the capital city of Sichuan Province, and is situated in the centre of an area which provides what management believes are favourable logistics in terms of Sichuan Migao's marketing and sales efforts for its potassium nitrate. Most of Sichuan Migao's production volume has been earmarked and sold to tobacco customers (including Yunnan Tobacco Company as described below) in Yunnan, Guizhou, and Sichuan Provinces, the key tobacco producing areas in the PRC. In addition, Sichuan Province is one of the major markets for ammonium chloride, which is the co-product from Sichuan Migao's facility.

The Sichuan Migao facility employs a technology that utilizes a proprietary process. Managing the operation is a team of highly-trained and experienced industry experts. Sichuan Migao's facility produces agricultural potassium nitrate and ammonium chloride using a low energy consumption double decomposition process (see "Research and Development" below in this AIF). The intellectual property rights associated with this process are owned by Sichuan Migao and a national patent application has been filed in the PRC. The patent is currently under formal review by the national Board of Patents. The first phase of the plant (with an original annual design production capacity of 20,000 tonnes of potassium nitrate) was completed at the end of 2003, the second phase (with an additional design production capacity of 20,000 tonnes of potassium nitrate) was completed in September 2004 and the first stage of the third phase, of the same size, was completed in November 2006. An additional construction phase for 20,000 tonnes of potassium nitrate was completed in October 2007. Sichuan Migao has 80,000 tonnes of annual production capacity in place and almost 45,000 tonnes of ammonium chloride.

In Fiscal 2007, the Sichuan Migao facility produced and sold approximately 66,500 tonnes of potassium nitrate and 38,300 tonnes of ammonium chloride. Because of improvement and innovation in technology and processing, the actual production capacity has been in excess of the original design capacity.

The agricultural potassium nitrate fertilizer produced by Sichuan Migao provides agronomically beneficial properties including: nitrogen in the nitrate (NO₃) form, a favourable nitrogen/potassium (N/K) ratio, moderate salt index, negligible chlorine content, alkaline residual reaction in the soil, and as well, low hygroscopicity which allows it to be applied directly or in mixtures with other fertilizers. Both the potassium and nitrate-nitrogen are readily taken up by crops. Special and careful management provides a high nutrient use-efficiency factor which promotes the desired high quality and yield in target crops. Sichuan Migao's potassium nitrate fertilizer is suitable for high value economic crops, such as tobacco, vegetables, grapes, sugar beets and citrus fruit trees, with the main markets for its products being the economic crop production bases in Yunnan, Guizhou, Guangxi and Sichuan Provinces. However, potassium nitrate can be successfully used in all crop production systems when properly managed according to soil characteristics and crop requirements.

Guangdong Migao Chemical Co., Ltd.

Guangdong Migao was established on April 30, 2004 as a sino-foreign joint venture under the laws of the PRC. The main business of Guangdong Migao is the production and sale of agricultural potassium sulphate and the co-product of industrial-grade hydrochloric acid. At the end of 2004, Guangdong Migao adopted the "Mannheim Process" (see "Research and Development" section below in this AIF) and installed production equipment to produce an annual output of at least 40,000 tonnes of powdered potassium sulphate for agricultural use and 48,000 tonnes of hydrochloric acid for industrial use.

The Guangdong Migao production plant is located in close proximity to the Chiwan Port of Shenzhen, to which 70% of the plant's raw material needs are delivered. This proximity reduces transportation costs for the potassium sulphate produced at the Guangdong Migao plant. Furthermore, Guangdong Migao's production plant is located in the Pearl River Delta, one of the most industrially developed and agriculturally diverse regions in the PRC. The local economy, which is highly developed, has a large demand for hydrochloric acid which the Guangdong Migao plant can supply. Hydrochloric acid is an important industrial raw material for such things as batteries, electronics, textiles, metallurgical processes, metal cleaning and food processing.

The main agronomic reasons for using agricultural potassium sulphate (in substitution for potassium chloride) are when a crop is sensitive to chloride or needs a lower chloride content, when crop demand for plant nutrient sulphur is high, and in situations where lower salt index fertilizers alleviate soil salinity problems. Often, potassium sulphate increases the starch or sugar content of crops, thereby increasing yield and improving the quality of various kinds of economic crops, such as vegetable crops, tobacco, potatoes, grapes, sugar beets, pineapples, bananas and citrus and deciduous fruits. Potassium sulphate can be successfully used in all crop production systems when properly managed according to soil characteristics and crop requirements.

The production capacity of the Guangdong Migao plant is currently 100,000 tonnes of potassium sulphate and 120,000 tonnes of the co-product hydrochloric acid annually.

Liaoning Migao Chemical Co., Ltd.

Liaoning Migao was established on January 14, 2005 as a sino-foreign joint venture under the laws of the PRC. The main business of Liaoning Migao is the production and sale of both granular and powdered agricultural potassium sulphate and the co-product industrial-grade hydrochloric acid. Liaoning Migao owns Migao Group's third fertilizer plant, Phase I of which was completed and put into operation in December, 2005.

The Liaoning Migao production plant is located within the Yingko Economic & Technological Development Zone in Liaoning Province, a key port with railway transportation extending into Yingko City. The short distance between the plant and the port and railway freight yard minimizes the transportation costs associated with delivery of raw materials to the plant as well as its products to customers.

The construction of the Liaoning Migao production facility commenced in May 2005 and was completed in December 2005. It consists of a production line with an original annual design capacity of an aggregate 40,000 tonnes of granular and powdered potassium sulphate. In addition, the plant has a production capacity of 48,000 tonnes of the co-product hydrochloric acid. Operation of the production line commenced on December 15, 2005.

The use of granular chemical fertilizer, produced by Liaoning Migao is a relatively new trend in China that follows fertilizer development in western countries. Bulk blend fertilizers require granular fertilizers. As compared with the powdered fertilizer, the granular fertilizer has improved physical performance, including reduced caking during long-term storage, is easy to handle, and can be more easily spread mechanically.

Over the past 20 years, super-granular urea, mono- and di-ammonium phosphate (MAP, DAP), compound fertilizer, and granular potash have become common in western agriculture; this is a developing trend internationally and in China. In North America, where the development of the chemical fertilizer industry is mature, granular potash fertilizer accounts for a large proportion of production, being approximately 40%-45% of the total output of potash fertilizer. The current import and consumption of granular potash fertilizer is virtually zero in China, largely driven by the twin facts of (i) higher prices for granular product and (ii) the traditional hand spreading of each fertilizer separately and individually. However, with availability of modern farm equipment and better understanding of balanced fertilizer practices, granular fertilizer products are seen as offering benefits. This situation suggests substantial market potential for Liaoning Migao as it targets the high value, intensively managed crop sector.

The Company's long range development plan includes doubling the capacity of the Liaoning Migao plant.

Migao Chemical Industry (Shanghai) Co., Ltd.

On November 15, 2006, the Company announced that it would be constructing a new potassium sulphate fertilizer production facility near Shanghai. Shanghai Migao was selected to be included in a new industrial park, with exclusivity in its production of hydrochloric acid, because of the Company's accomplishments in profitability, clean production technology and treatment of its employees. The Company considers the industrial park as an exceptional site because of its excellent transportation and energy infrastructure and because it is home to key customers for the Company's hydrochloric acid co-product.

Shanghai Migao will initially produce 40,000 tonnes of potassium sulphate fertilizer annually for high value crop customers, particularly the fruit and vegetable growers who supply the lucrative, quality-conscience Shanghai and

east coast markets. The Company received all preliminary approvals from local government agencies to begin construction. Construction is scheduled to be completed, and the plant put into production mid-2008. The Shanghai property secured by Shanghai Migao covers an area that is large enough to expand the potassium sulphate production by an additional 40,000 tonnes. When fully operational, the first phase of the new plant will produce, as a co-product of potassium sulphate production, nearly 50,000 tonnes of hydrochloric acid annually.

Migao Chemical (Changchun) Co., Ltd.

The Company has completed construction of a new potassium sulphate fertilizer production facility in Changchun, Jilin Province, China. Changchun Migao will produce 40,000 tonnes of potassium sulphate fertilizer annually for local high value crop customers. The new plant will also be producing as a co-product of potassium sulphate production nearly 50,000 tonnes of hydrochloric acid annually which is expected to be sold primarily to a local company for use in corn processing. A further expansion of an additional 40,000 tonnes of potassium sulphate production could be accommodated given the amount of property secured at the site.

Migao Chemical (Zunyi) Co., Ltd.

The addition of Zunyi Migao to Migao's portfolio of subsidiaries was announced on August 9, 2007. The new location will be used to produce potassium sulphate and hydrochloric acid as a co-product. Located in Guizhou Province in southern China, Zunyi Migao will initially produce 40,000 tonnes of potassium sulphate fertilizer annually for high value crop customers. Construction is scheduled to be completed and the plant put into production in late 2008. When fully operational, the first phase of the new plant will produce, as a co-product of potassium sulphate production, nearly 50,000 tonnes of hydrochloric acid annually. An additional 40,000 tonnes of potassium sulphate capacity is expected to be constructed by the end of 2009.

Migao Chemical (Tianjin) Co., Ltd.

Tianjin Migao was established on September 29, 2007 and is located approximately 130 kilometres from Beijing. Tianjin Migao will produce potassium sulphate and hydrochloric acid as a co-product. The new facility will initially produce 40,000 tonnes of potassium sulphate fertilizer annually for high value crop customers. Construction is scheduled to be completed and the plant put into production in late 2008. An additional 40,000 tonnes of potassium sulphate capacity is expected to be constructed by the end of 2009. When fully operational, the first phase of the new plant will produce, as a co-product of potassium sulphate production, nearly 50,000 tonnes of hydrochloric acid annually.

Local Government Regulations

Production Permits

In the PRC, each of the subsidiaries of HK Migao is required to obtain certain permits from the local government for its operations.

Sichuan Migao has obtained a production permit for compound and blended fertilizer (or complex fertilizer).

A production permit is not needed for potassium sulphate production by Guangdong Migao, but is needed for hydrochloric acid production. A production permit for the production of 120,000 tonnes of hydrochloric acid annually has been obtained.

Liaoning Migao commenced production in December 2005. As is the case with Guangdong Migao, the production of potassium sulphate at the Liaoning Migao plant does not require a production permit, though one is needed for its production of hydrochloric acid. A production permit has been obtained for the production of 48,000 tonnes of hydrochloric acid annually at the Liaoning Migao facility.

Changchun Migao is expected to receive a production permit for hydrochloric acid once the facility has been inspected and tested for safety.

Shanghai Migao has not been put into production and therefore cannot yet apply for a production permit for hydrochloric acid. A similar situation applies to both Zunyi Migao and Tianjin Migao.

Environmental Protection Requirements

Environmental protection requirements at the local government level for Migao Group's operations involve:

- when a project is to be constructed, the preparation of an appraisal report of the impact on the environment and its presentation to the environmental protection department of the local government for approval; and
- when putting a plant into operation, review and acceptance from the environmental protection department.

Sichuan Migao, Liaoning Migao and Guangdong Migao have obtained approval with respect to their environmental protection appraisal and the review and acceptance of the environmental protection department. On an ongoing basis, the environmental protection department of the local governments also conduct quarterly inspections. To date, Sichuan Migao, Liaoning Migao and Guangdong Migao have not been subject to any warnings or fines imposed for non-compliance as a result of such inspections. Shanghai Migao and Changchun Migao have obtained approval with respect to their environmental protection appraisal, but have not yet obtained review and acceptance of the environmental protection department, which can only be attained after operations commence.

Land Use Rights

Land ownership in China generally belongs to the state, but enterprises can be granted land use rights for extended periods. The process of applying for land use rights involves firstly, making a land expropriation contract with the local government and making payment per the contract and secondly, obtaining the land use right certificate from the appropriate administrative department of land. The typical length of land use rights for industrial purposes is prescribed by the government at 50 years.

As of September 30, 2007, the Company has a total of sixteen land leases from the Chinese government with terms of 50 to 70 years. As of September 30, 2007, the Company had not obtained land use rights certificates for eight of the land leases and approximately \$4.7 million was accrued as the balance due on the issuance of the certificates. It is common practice in the PRC that land use rights certificates are only issued when the government has serviced the land ready for construction.

Sichuan Migao has two plots of land totalling approximately 548,000 square metres in Chengdu. Land use rights expiring in 2055 have been obtained for 115,000 square metres and the process is underway to obtain land use rights for the balance.

Guangdong Migao has two plots of land of approximately 107,000 square metres each in Foshan. Guangdong Migao has paid a portion of the RMB 4.0 million and of the RMB 4.45 million, respectively, required for these two plots and remains in the process of obtaining 50 year land use rights. These outstanding balances of RMB 1.39 million and RMB 2.28 million, respectively, on the two plots of land are expected to be funded from internally - generated funds.

Liaoning Migao has two plots of land of approximately 318,000 square metres in total in Yinkou. Liaoning Migao has fully paid the required RMB 31.8 million and obtained land use rights for a 95,000 square metres plot, such rights expiring on June 22, 2055. Liaoning Migao is in the process of obtaining land use rights for the remaining 223,000 square metres.

Shanghai Migao is in the process of obtaining land use rights for approximately 54,900 square metres of land (total cost RMB 18.6 million) in Jinshan District, Shanghai while Changchun Migao is in the process of obtaining land use rights for approximately 106,000 square metres (total cost RMB 11.2 million) in Changchun. Funding is expected to be from internally-generated funds in both cases.

Another subsidiary of HK Migao is in the process of obtaining land use rights for approximately 12,700 square metres of land in Foshan to be used for the construction of employee accommodations and ancillary facilities for Guangdong Migao.

Taxation

Value-added tax (“VAT”) is typically payable in the PRC at a rate of 17% of taxable sales and credited by VAT paid on materials and related expenditures. However, the chemical fertilizer trade is supported by state tax policy in China, with both agricultural potassium nitrate and potassium sulphate production projects being listed in the Order of State Planning Commission, State Economic and Trade Commission and Ministry of Foreign Trade and Economic Cooperation No. 21 (March 11 2002) “Foreign Trade Investing Industry Guidance Catalog” and “Encouraged Foreign Trade Investing Industry Catalog” as encouraged industries. These documents set out the industries in which foreign investment is supported and encouraged by the state industrial and tax policy. The production of hydrochloric acid is not considered to be within the chemical fertilizer trade. As a result of the above-noted policies, most of the Migao Group’s sales are exempt from VAT, with the exception of the sales of the hydrochloric acid co-product.

With respect to corporate income tax, the three original operating subsidiaries in China are all Wholly Foreign Owned Enterprises and thus have been entitled to the benefits of China’s Wholly Foreign Owned Enterprise income tax “Exempting Two and Reducing Three” Policy. Pursuant to this policy, they have been exempt from corporate income tax in the first two years upon becoming profitable. From the third year to the fifth year, depending on their financial results, their corporate income tax rate would be reduced to half of the applicable corporate income tax rate. Sichuan Migao began operations in 2004 and enjoyed the second year of complete corporate income tax exemption in 2005. In accordance with the above policy, Sichuan Migao was subject to corporate income tax in 2006 and 2007, but at a 50% reduction of its prescribed rate. The 50% reduction will also apply in respect of Sichuan Migao’s corporate income tax in 2008. Guangdong Migao had the first year of complete corporate income tax exemption in 2005 and became subject to corporate income tax in 2007, but at the 50% reduction of its prescribed rate. Liaoning Migao commenced operations in December 2005 and 2006 was its first year of the tax exemption.

Each of Shanghai Migao and Changchun Migao are expected to enjoy the “Exempting Two and Reducing Three” tax exemption starting in 2008.

Tianjin Migao and Zunyi Migao are also applying for the same tax exemptions; there can be no certainty the exemptions will be approved.

In March 2007, the new Enterprise Income Tax Law (the “EITL”) was enacted in China. The EITL, which takes effect in 2008, will bring foreign and domestic companies in the PRC under the same tax code with most companies doing business in China to have a corporate income tax rate of 25%.

The EITL provides a “grandfather rule” for already established enterprises with respect to the “Exempting Two and Reducing Three” Policy whereby the incentives will be allowed to continue to their conclusion, provided they conclude by 2012. Application and approval for “grandfathered” status will be necessary however. For example, if a particular enterprise’s incentives would otherwise run through 2013 because the first year of profits is 2009, then the five-year incentive period would be considered to begin instead in 2008 and any benefits for 2013 that would have been realized under the old rules will be lost. The application of the “Exempting Two and Reducing Three” Policy may be further clarified by the EITL implementation rules which are still being considered. See “Risk Factors - Risks of Doing Business in China - Tax” below.

Research and Development

The R&D expense of Migao Group is mainly allocated in the following three areas:

- Technical support in the course of schematic design, technical research & development, design and construction of construction projects;

- Technical support of production process and implementation of new processes and technology; and
- Research and development of new projects.

Migao Group has a research and development team staffed by nine experts in the chemical industry (including engineers and technicians) with strong educational backgrounds and extensive high-level practical experience. The members of Migao Group's R&D team have worked in large state-owned chemical enterprises, been engaged in front-line chemical R&D, design, production and management and have thus accumulated extensive experience in chemical production, scientific research and project management. This experienced group is a strong asset for Migao Group, providing project management, schematic design and implementation assurance for the execution of Migao Group's projects and strong technical support for the day-to-day operation of Migao Group's production facilities. In addition, this group is also responsible for developing the equipment process flow in respect of which Sichuan Migao has applied for a national discovery patent and for the design and operational modifications made to Migao Group's plants to enable them to operate at, and even exceed, design capacity and produce high quality products. The patent is currently under formal review by the national Board of Patents. Migao Group expects to expand its R&D department and budget in the future in order to maintain its position in the industry.

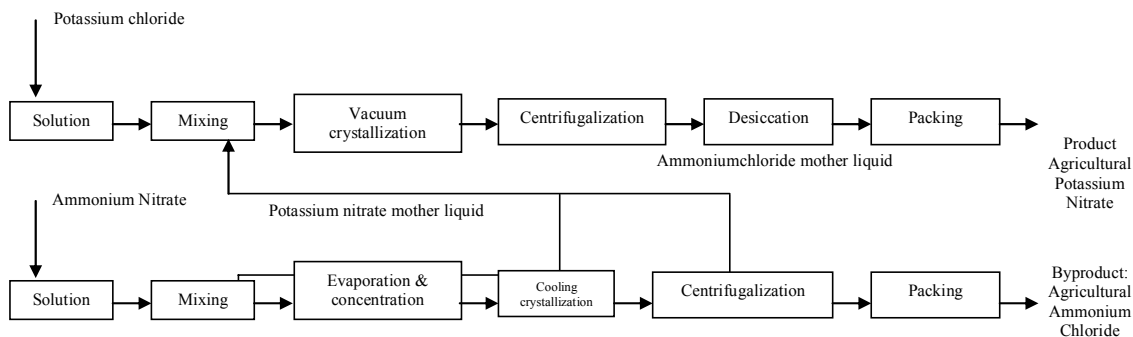
Double Decomposition Process

The process of double decomposition is essentially a type of chemical reaction whereby two compounded substances exchange components and derive new compounded substances via the reaction. For example, the potassium from potassium chloride and the nitrate from ammonium nitrate combine to form potassium nitrate while the ammonium from the latter and the chloride from the former combine to form ammonium chloride. The "Producing Potassium Nitrate and Ammonium Chloride with Low Energy Consumption Double Decomposition Process" to efficiently effect and control this reaction is based on proprietary technology that is owned by Sichuan Migao. The efficiencies of the technology are as follows:

- No waste water drainage, no waste slag discard, and no waste gas emission (the "three wastes"), resulting in an environmentally responsible, clean production technology;
- High efficiency and energy saving: approximately one tonne of steam is saved per tonne of agricultural potassium nitrate produced. The utilization ratio of raw materials and energy resources of the product is among the highest in the industry;
- The product is consistent and of high quality;
- The unit operates safely and stably and is fire resistant with standardized health devices for labour protection; and
- Innovative and reliable operating technology: through continuous innovation and practice, the production units can operate for up to 350 days of the year.

Sichuan Migao has applied for a national patent in China, which is currently under review by the national Board of Patents, with respect to the Double Decomposition Process as illustrated in Figure 1 below.

Figure 1 - Process Flow For Potassium Nitrate Production

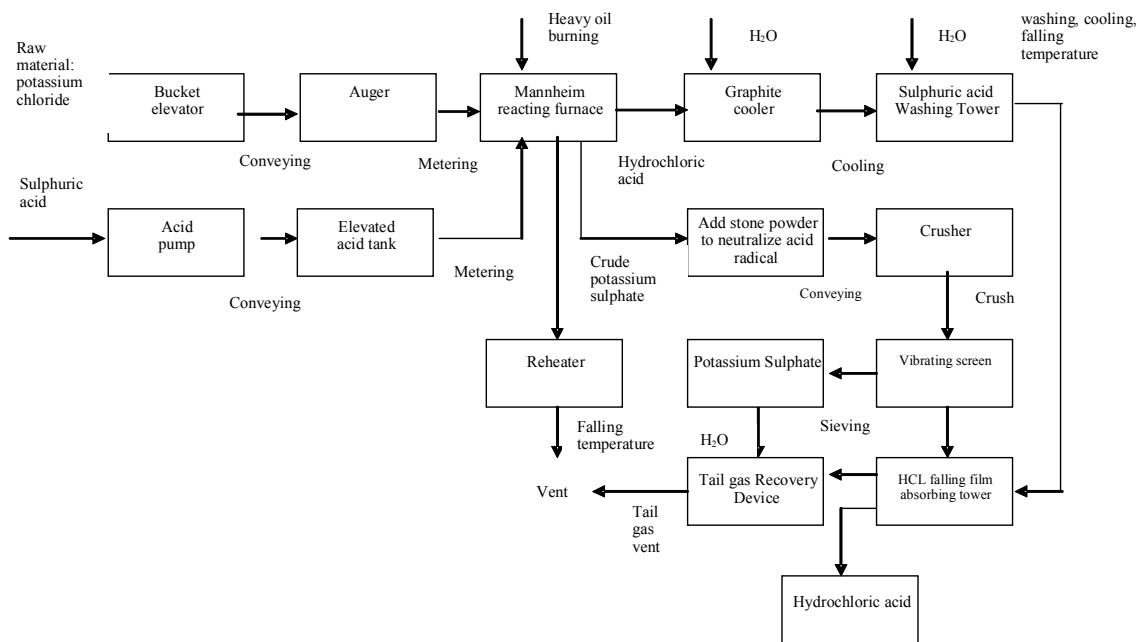


Mannheim Process

The “Mannheim Process”, used in the Company’s operations to produce potassium sulphate and hydrochloric acid, is one of the most widely accepted potassium sulphate producing processes in the world. There are two other commonly used potassium sulphate processes: the magnesium sulphate double decomposition process and the salt water process. The key factors in determining which process to use are the sources and prices of raw materials.

The “Mannheim Process” potassium sulphate production technology was introduced to China in 1992 and, since then, units have been built in China by Migao Group and competitors using this technology. Over the years, much operational experience has been gained and several technical equipment companies have improved on the technology. The development continues and the equipment and machinery can now be completely sourced in the PRC for this process. A flow diagram for the Mannheim Process is set out in Figure 2 below:

Figure 2 – Potassium Sulphate Process Flow Diagram



The “Mannheim Process” technology enables the production unit to run continuously for long periods. In addition, it is environmentally responsible as it does not produce the “three wastes” in the production process. It also has the

following advantages: high availability of raw materials and energy resources, stable and safe unit operation, good product quality, and the actual production capacity can exceed the designed capacity.

Guangdong Migao has improved and optimized the production units, technical parameters and process flow during design of this process, which has enabled the production units at Guangdong Migao’s facility to operate at, or beyond, design capacity, producing a higher quality product than all the technical indices defined in the applicable standards. Some of the benefits realized are as follows:

- Long periods of full load operation with the potential for daily, monthly and yearly output exceeding the guaranteed design capacity;
- Product quality is better than the individual technical indices defined in the applicable standards;
- The environmental protection level reaches the national requirement, with no “three wastes” emission from the units; and
- Economic efficiency (profit/cost) of the unit meets Guangdong Migao’s pre-determined budget criterion.

The same improved production features described above have also been incorporated into the Liaoning Migao and Changchun Migao facilities.

Products

Migao Group primarily manufactures two types of fertilizer: potassium nitrate from the Sichuan Migao plant and potassium sulphate from the Guangdong Migao, Liaoning Migao, and Changchun Migao plants. In addition, the manufacturing of these fertilizers produces co-products that are also sold by Migao Group. The co-products include ammonium chloride from the potassium nitrate plant and hydrochloric acid from the potassium sulphate plants.

Revenues from these products for Fiscal 2006 and for Fiscal 2007 were as follows:

Name of Product	2006	2007
Potassium Nitrate	\$25,668,079	\$32,082,310
Ammonium Chloride	\$3,103,883	\$3,264,595
Potassium Sulphate	\$22,935,604	\$54,988,634
Hydrochloric Acid	\$4,565,412	\$7,728,780

For Fiscal 2007, potassium nitrate represented approximately 31% of revenues while potassium sulphate represented approximately 54%. The remaining 15% was split between sales of ammonium chloride and hydrochloric acid.

Currently, there is no national standard in China for Sichuan Migao’s agricultural potassium nitrate. Migao Group has set its own product standards with the following main indices, which management believes represents the highest product quality in the industry in China:

Potassium oxide content	≥ 44.5%
Total nitrogen content	≥ 13.5%
Chlorine radical content	≤ 1.5%
Water content	≤ 1.0%

These nutrient standards meet and exceed world criteria of 44% potassium oxide and 13% nitrogen.

The co-product ammonium chloride attains a purity rate of 99.5%.

Potassium sulphate produced by Guangdong Migao reaches and exceeds the indices of superior quality product defined in the professional standard HGT3279-1990 released by the ministry for the chemical industry in China. The product is white powdered crystalline that can be used as a raw material for producing multi-element compound fertilizer or applied as a straight fertilizer directly to farm land. The product is packed in plastic woven bags in 50 kilogram and 25 kilogram sizes. Product quality of the co-product hydrochloric acid conforms to the indices of superior quality product defined in the professional standard GB320-93 released by the China State Bureau of Technical Supervision. World trading standards for potassium sulphate are 50% potassium oxide and 17.6% sulphur.

As further described below under “Sales and Marketing”, Migao Group has established its own sales channels and has established long-term stable relations with clients in the Chinese domestic tobacco industry for sales of its leading products (potassium nitrate and potassium sulphate). All Migao Group products are distributed to end users through its own sales channels.

Operations

Sales and Marketing

The Chinese government does not control prices for the sale of potash fertilizer in China. Migao Group prices its various products on the basis of standard commercial factors.

Migao Group has established stable relationships through its own sales channels with clients in the Chinese tobacco industry. The marketing of Migao Group products is done in two ways: Migao Group is responsible centrally for the clients purchasing its primary products, potassium nitrate and potassium sulphate, while the sales departments of its subsidiaries are responsible for marketing the co-products ammonium chloride and hydrochloric acid. Each of the four current operations has its own marketing and sales division for these co-products. This enables each of the four sales forces to deal directly with the various regional customers for its co-products as opposed to having one central strategy operating from a central sales location. The four plants serve significantly different regions and customers and the regional sales forces are better equipped to effectively address the requirements of their customers in a timely manner with respect to the co-products.

This strategy has proven effective in maintaining customer loyalty, with sales contracts increasing in size. Sichuan Migao, Guangdong Migao and Liaoning Migao have all entered into arrangements with large state-owned tobacco consortia for their respective calendar 2008 fertilizer output as described above under “Fertilizer Production Facilities”.

Customers

During Fiscal 2007, the Yunnan Tobacco Company comprised approximately 56% of Migao Group’s revenue. The main customers of Migao Group by product for Fiscal 2007 were:

Main Customers of Agricultural Potassium Nitrate in Fiscal 2007 (by volume)

Yunnan Tobacco Company
Sichuan Jinye Chemical Fertilizer Co., Ltd.
Guizhou Chitianhua Daxing Compound Fertilizer Co., Ltd.

Main Customers of Ammonium Chloride in Fiscal 2007 (by volume)

Chengdu City Xindu Nongdeli Chemical Fertilizer Plant
Yunnan Sanhuan Chemical Co., Ltd.
Sichuan Shifang Xinjingan Chemical Co. Ltd.
Chengdu City Xindu Shennongfeng Fertilizer Co., Ltd.

Main Customers of Agricultural Potassium Sulphate in Fiscal 2007 (by volume)

Yunnan Tobacco Company
China National Agricultural Means of Production Group Corporation
Guizhou Bijie Lingfeng Compound Fertilizer Co., Ltd.
Guizhou Province Tobacco Company

Main Customers of Hydrochloric Acid in Fiscal 2007 (by volume)

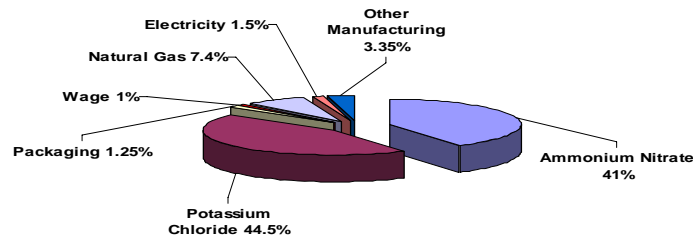
Dongguan City Yonglian Chemical and Trade Co., Ltd.
Guangdong City Dongtai Chemical Co., Ltd.
The General Pharmaceutical Factory of Northeast

Raw Materials

Migao Group's main raw materials are potassium chloride (the key ingredient), ammonium nitrate (used for the production of potassium nitrate) and sulphuric acid (used for the production of potassium sulphate).

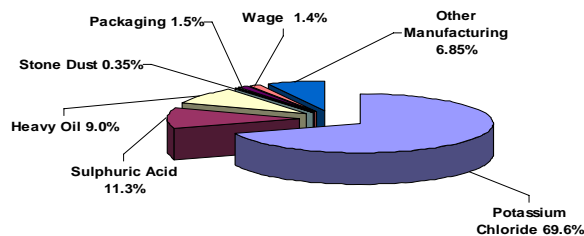
As indicated below in Figure 3, the largest components of cost for the Migao Group to produce potassium nitrate are potassium chloride and ammonium nitrate. For Fiscal 2007 the breakdown was as follows:

Figure 3 - Potassium Nitrate - Raw Materials Breakdown



As indicated below in Figure 4, the largest component of cost to produce potassium sulphate is potassium chloride. For Fiscal 2007 the breakdown was as follows:

Figure 4 - Potassium Sulphate - Raw Materials Breakdown



Migao Group purchases potassium chloride produced in Russia. Prior to 2006, purchasing was done through Chinese agencies. Since then, Migao Group has purchased its potassium chloride requirements directly from suppliers in Russia. In all cases, long-term supply contracts are not used. Since it commenced operations, Migao Group has enjoyed stable supply relationships with the main distributors of potassium chloride. Russian based Joint JSC Uralkali (“**Uralkali**”) and JSC Silvinit (“**Silvinit**”) are the two main suppliers of potash to Migao Group. Uralkali is the fifth largest producer of potash in the world and Silvinit is the sixth largest. Migao Group has not experienced any disruptions of supply from either of its potash suppliers and has been advised by both companies that they will continue to supply Migao Group’s expanding operations.

In addition, Sichuan Migao has entered into a long-term supply contract with SCGC to purchase ammonium nitrate at the prevailing market prices at the time of order. The ammonium nitrate is shipped from SCGC’s plant located adjacent to the Sichuan Migao production plant. This proximity results in lower transportation costs and benefits Sichuan Migao’s raw material inventory controls. In addition, it is advantageous to have close proximity to SCGC’s plant as ammonium nitrate is a combustible substance and is subject to strict requirements in its transportation and storage.

The price of potassium chloride has steadily increased in the last few years. Migao Group’s operations are subject to such raw material cost increases. At the beginning of 2004, the price of potassium chloride paid by Migao Group was RMB 1,160/tonne (Cost and Freight) (\$182, based on the exchange rate at such time). The price had risen to approximately RMB 1,900/tonne at the end of Fiscal 2007 (\$250, based on the exchange rate at such time). The prices paid by Migao Group are inclusive of all customs, transportation, re-packaging and freight costs totalling 500 RMB per tonne in Fiscal 2007 (\$66, based on the exchange rate at such time).

Sulphuric acid is purchased from the respective local areas by each of Guangdong Migao, Liaoning Migao and Changchun Migao. The price of sulphur, a component of sulphuric acid, has risen sharply recently in certain regions of the world, including China, due to supply shortages. Migao Group’s suppliers have indicated that they will continue to supply Migao Group’s expanding operations.

In light of the rising input costs, Migao Group has historically been able to adjust the selling prices of its potassium nitrate and potassium sulphate products to reflect its increased raw material costs, thereby maintaining the profit margins for its products, although there may be a time lag in that regard in certain cases.

Environment

Migao Group considered and complied with environmental protection requirements when it developed and installed its potassium nitrate and potassium sulphate producing technologies. One feature of the “Double Decomposition Process” technology is that it allows for “fully enclosed and continual circulation”. During operation, the production unit is basically fully enclosed except when adding raw material and removing finished product output, thereby virtually eliminating emissions and meeting government policy objectives of no “three wastes” emissions. Guangdong Migao and Liaoning Migao’s use of the “Mannheim Process” has the same features, thereby enabling their facilities to meet the PRC’s environmental protection requirements.

The potassium content of soil in China is low to moderate (80% of soils tested low to moderate in 2007, as determined by the predominant soil testing lab in the PRC, the Chinese Academy of Agricultural Sciences/Potash & Phosphate Institute of Canada Soil Testing Laboratory, based on a total of 43,156 soil tests) with the range varying from 15 to 97 percent on a province by province basis. As a result of these content levels, there is a large demand for potash, particularly in those provinces that are south of the Yangtze River, along the intensively farmed eastern coast, and in-land provinces where agricultural productivity is increasing. Migao Group’s potassium nitrate and potassium sulphate can be used as fertilizer instead of potassium chloride where crops are either sensitive to chlorine-based fertilizers (tobacco and fruit trees) or require higher doses of potassium and/or sulphur (vegetable and fruit crops), or when soil salinity is a concern. Potassium nitrate has a small positive effect in reducing soil acidity whereas potassium sulphate has a neutral effect on soil pH. From production to use, when properly managed, Migao Group’s products have positive environmental influences.

Sichuan Migao and Guangdong Migao have both established quality/environment management systems according to the international standards ISO9001 and ISO14001 in order to standardize their respective management and operations. Liaoning Migao has applied for similar certification.

Industry Overview

There are three primary plant nutrients: nitrogen (N), phosphorus (P) and potassium (K). Modern agricultural practices use these three primary nutrients in large amounts in fertilizers to assure crop productivity and quality and thereby improve farmer income. Crops require levels of nutrients in different N:P:K ratios depending upon the particular crop involved. When these nutrients are applied appropriately, based on soil fertility level, crop type and realistic yield levels, both on-farm profitability and environmental protection are optimized.

Balanced fertilization is critical for maintaining soil quality and for growing sufficient food to meet demand. In China, crop yields are negatively impacted by unbalanced use of the three main nutrients, with deficiencies in the use of potash fertilizer. Further, all essential crop nutrients, including sulphur, must be provided in order to achieve optimal nutrient balance and top crop quality and yields.

Different types of Potash Fertilizers used in China

The following are several kinds of common potash fertilizers used in China and their main effects.

Potassium Chloride

Potassium chloride must contain a minimum of 60% potassium oxide (K_2O) according to international trading standards. In colour, it ranges from white to pink and deeper red, is crystalline in nature but varies in shape from angular to spherical, and is readily soluble in water. Both the potassium and chloride ions can be absorbed and used directly by the plant although certain crops such as tobacco, potato, pineapple, deciduous fruit trees and grapes are less tolerant of chloride than most field crops, hence potassium nitrate or potassium sulphate are often used, in whole or in part, instead of potassium chloride. As a cost effective measure in chloride sensitive crops, potassium chloride can be used as a base fertilizer to the limit where chloride is problematic. It is mainly used for grain (including rice) and oilseed crops.

Agricultural Potassium Nitrate

Agricultural potassium nitrate contains 44% potassium oxide and 13% nitrogen in the nitrate form; hence, it supplies two primary nutrients to the fertilized crop. Since the nutrients are supplied together and potassium improves plant utilization of nitrate by effecting uptake and translocation, crop quality is more easily achieved when potassium nitrate is used. It is an ideal fertilizer for special use cropping situations (i.e., tobacco, fruit, vegetables, and flowers) where achieving certain quality factors has a strong influence on the price paid for the crop. Potassium nitrate is more water soluble than potassium chloride, which provides the option of applying potassium nitrate either to the soil, through irrigation systems, or as a foliage spray. Normally, other nitrogen fertilizers (urea, ammonium nitrate) will damage leaves when applied to the foliage.

Agricultural Potassium Sulphate

Potassium sulphate contains 50-54% potassium oxide and 17.6% sulphur. Normally it is white or faint yellow in colour; its hygroscopicity is less than potassium chloride, hence more resistant to caking. In terms of effect on soil pH, potassium sulphate is neutral in its effect and similar to potassium chloride. Potassium sulphate provides crops with sulphur, making it a useful fertilizer for crops requiring greater sulphur nutrition. Examples of crops which benefit from higher sulphur nutrition are crops in the cabbage, onions and mustard families as well as all oilseed crops and most tropical and temperate fruit crops.

Potassium sulphate is a low-chloride potash fertilizer that is more prevalently used in agricultural production in the PRC as compared to potassium nitrate, due to economic and agronomic reasons. Application of potassium sulphate has beneficial effects on soil structure, improves a crop's ability to resist drought, disease, insects and pests, promotes the formation of starch and sucrose, improves nitrogen use efficiency and promotes plant uptake of phosphorous. Potassium sulphate is thus the preferred potash fertilizer to fertilize chloride sensitive crops such as tobacco and fruit trees, and in crops such as sugarcane, sugar beet, grapes, potato, vegetables and cotton where starch, sugar and fibre formation are critical features.

Domestic Potash Market Situation

China has relatively small known potash reserves, and limited domestic production capacity, which is located in the northwest. The economically developed southeast, east and northeast areas have no potash resources. Economic reserves and resources of potash are heavily concentrated in two regions – Canada and the former Soviet Union having a large share of the world’s recoverable potash. Conversely, China has phosphorous reserves in the interior south which are being processed into phosphate fertilizers as well as nitrogen fertilizer production throughout the country. As a result, the development and use of nitrogenous and phosphorous fertilizers in China began earlier and has been rapid, whereas potash use and production began much later, causing an agronomic imbalance in the use of nitrogen, phosphorous and potassium fertilizers. The Government of China’s emphasis on improving crop yields, quality and production efficiency in both southern and northern China, coupled with a shortage in domestic reserves, has resulted in a large and increasing demand for potassium fertilizers.

While the growth in domestic production of chemical fertilizers in China has resulted in domestic production displacing imports, this has not been the case with potash. Both imports and domestic production have grown to meet the demand for potash fertilizer in China. In 2006 however, prolonged negotiations between the major Chinese potash importers and the major potash producers resulted in a period of reduced delivery of potash from Russia and Canada to China.

Potash Based Fertilizer in the Chinese Market (Millions of Tonnes – K20)

	2004	2005	2006
Domestic Production	1.880	2.417	2.620
Imports	7.027	8.917	7.009

Source: *International Fertilizer Industry Association*

Competition

Migao Group is a potash fertilizer manufacturer and its products can be directly used as potash fertilizer or as the raw material for compound fertilizers (containing two or more of nitrogen, phosphorous and potassium). Speciality fertilizer manufacturers can use Migao Group’s potash fertilizer as raw material for their compound fertilizers, so the development of speciality fertilizer companies may increase demand for potash fertilizer, while also being competition for Migao Group. Pricing for Migao Group’s products are competitive with Migao Group’s competitors in the Chinese potash fertilizer industry.

Market Share and Competition - Agricultural Potassium Nitrate

Migao Group’s competitors in the potash fertilizer industry include Chinese and international fertilizer companies. Based on management estimates, the major domestic producers of potassium nitrate are as follows:

<u>Company Name</u>	<u>Plant Locations</u>
Wotewei Chemical Co., Ltd.	Kaiyuan, Yunnan
Sichuan Migao Chemical Fertilizer Co., Ltd.	Chengdu, Sichuan
Shanxi Wentong Sylvine Company	Wentong, Shanxi

Sources: *China Statistical Yearbook 2004, China Chemical Information, China Chemical Newspaper and management estimates*

In Fiscal 2007, Sichuan Migao produced approximately 66,500 tonnes of potassium nitrate, exceeding original design capacity by approximately 10%. With a 20,000 tonne potassium nitrate expansion completed in October 2007, potassium nitrate design capacity at the Sichuan Migao facility is now 80,000 tonnes per year, with market share projected by management to reach 30% of the Chinese market. Sichuan Migao’s potassium nitrate is mainly supplied to the tobacco production bases of Yunnan, Guizhou and Sichuan Provinces with some supplied to areas such as Guangxi and Hunan. Migao Group management believes that there is no other potassium nitrate enterprise in China having the production scale of Sichuan Migao. Sichuan Migao is the only China-based producer of

potassium nitrate that is certified by the State Tobacco Monopoly Administration for use by the tobacco industry in China.

Market Share and Competition - Agricultural Potassium Sulphate

Potassium sulphate, a low-chlorine potash, has been widely applied to the planting of economic crops, and its applications are expanding. Management estimates that the consumption of potassium sulphate in the PRC has grown from approximately 600,000 tonnes in 2003 to more than 2,000,000 tonnes in 2007.

Based on management's research and estimates, the original design capacities of Migao Group's Guangdong Migao and Liaoning Migao operating facilities together represent the second largest source of domestic potassium sulphate production in the PRC, together accounting for approximately 10% of the market. Based on management estimates, the major domestic producers of potassium sulphate are as follows:

<u>Company Name</u>	<u>Plant Locations</u>
Taiwan Qingshang Group	Shanghai, Tianjin, Xiamen, Guangzhou, Zhuzhou
Migao Group	Foshan and Yingkou
Jiaugau Suzhou Refined Chemical Group Company	Suzhou
Others	Shandong, Hubei, and Sichuan

Sources: China Statistical Yearbook 2004, China Chemical Information, China Chemical Newspaper and management estimates

If all of the additional potassium sulphate production capacity expansion by the Migao Group is completed, management projects that production will reach approximately 400,000 tonnes annually.

Chemical Fertilizer Market Analysis

Raw materials for chemical fertilizers mainly come from natural minerals or fossil fuels. The production and trade development of chemical fertilizers are related to numerous factors, including agricultural development, population, land, price, and market supply and demand for resource related products. In both the international and domestic markets, the prices of chemical fertilizer products vary according to these factors.

Chemical Fertilizer Market Situation

Generally, with the increase in the world population, the decrease of available farm land, and the growth in the demand for meat and dairy products, the worldwide chemical fertilizer industry has shown a long term growth rate of about 2% annually according to the International Fertilizer Industry Association ("IFA"). The IFA predicts total nitrogen – phosphorous – potassium fertilizer consumption will increase 2.7% annually to 2011, including a 3.2% annual increase for potash fertilizers. The IFA expects North America and western and central Europe to show slight growth in fertilizer consumption over the next five years with strong growth predicted for parts of Asia, including China, eastern Europe, Latin America, Africa and Oceania.

Insufficient potash supply

As indicated, the difference between consumption and domestic production of potash is increasing as the rate of consumption exceeds that of domestic production.

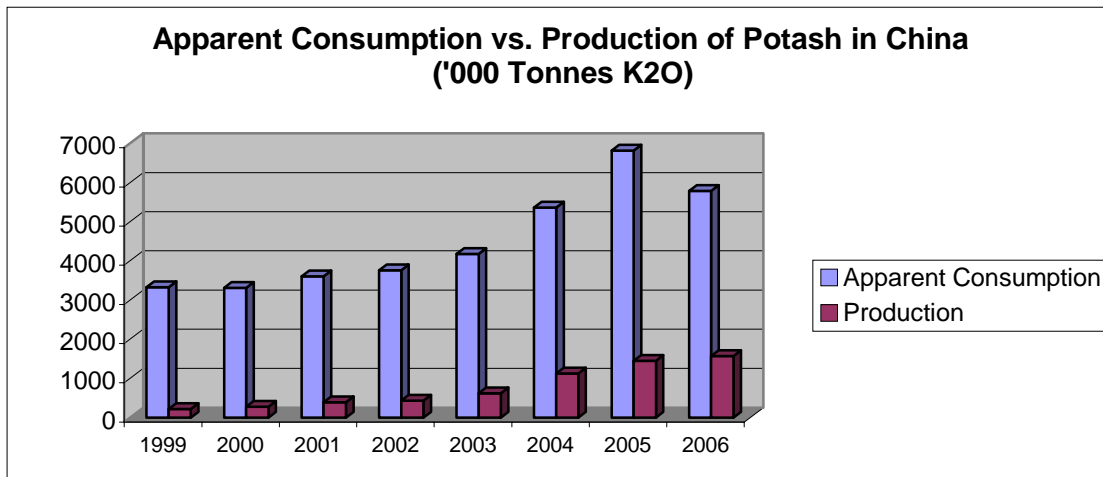


Figure 5 –Potash Consumption vs. Production in China

Source: International Fertilizer Industry Association

As a result of this excess demand, the price of potash has risen significantly. In the last two annual negotiations for potash pricing in China between the major Chinese importers and the major potash producers (represented by Canpotex Limited (Canada) and JSC Belarusian Potash Company (Belarus and Russia)), the price of potash rose between 15% and 20%, depending on the delivery point. The price Migao Group pays for potash is based on this annual negotiated price. Historically, Migao Group has been able to maintain gross margin levels by passing on any price increases of its raw material, which is primarily comprised of imported potash. The main reason Migao Group has been able to pass along raw material price increases is due to the nature of its end-use crop customers: Migao Group's products are primarily applied to high value crops whose customers are not as price sensitive as those growing basic and staple food field crops such as rice, wheat and corn.

Nitrogenous fertilizer supply meets demand

The worldwide growth in nitrogenous fertilizer demand and supply is basically balanced because their raw material feed stocks, natural gas and petroleum, are more evenly distributed throughout the world. These and other carbon-bearing fossil fuels are used for ammonia synthesis which is then used for the production of various kinds of nitrogenous fertilizers. In China, a large portion of nitrogenous fertilizer is produced from ammonia which is synthesized through coal gasification.

Strong world sulphur demand

In 2007, global demand for sulphur greatly tightened supply, causing substantial price increases. Sulphur is used in a wide array of industrial applications, including fertilizer manufacturing.

Surplus of phosphate fertilizer production capacity

Currently, the worldwide phosphate fertilizer production capacity is in significant surplus mainly due to the large growth in phosphate fertilizer production in China in the past several years.

China's Domestic Chemical Fertilizer Market Situation

China is the world's second largest economy and has a population close to 1.3 billion. China has more than 20% of the world's population and less than 10% of the world's arable land.

According to the Beijing Tianzhong Economic Research Center, in 2004 the total global chemical fertilizer consumption was 150-160 million tonnes, with China accounting for 40 million tonnes. China has become the leading chemical fertilizer consumption country in the world but resource quality and resource reserves are not

sufficient. Further, much of China's fertilizer industry is in need of modernization. The worldwide export markets are mainly monopolized by the large conglomerates of the developed countries and the countries of the former Soviet Union.

Business Objectives

The Company's business strategy involves the provision of high-quality potash fertilizer (agricultural potassium nitrate and potassium sulphate) to the Chinese domestic market. The Company aims to serve China's agricultural consortium of economic crop growers by improving crop quality and increasing crop yield in an environmentally responsible manner, and contributing to the overall agricultural development of China.

The Company's long-term development plan is to:

- (a) expand the production at four existing potash fertilizer plants in order to increase market penetration and maximize their economic potential;
- (b) complete construction of the fifth, sixth, and seventh potash fertilizer production facilities with the goal of creating a national configuration for Migao Group's fertilizer products in the PRC;
- (c) produce 500,000 tonnes of potash fertilizer annually, among which the output of potassium nitrate is projected to be approximately 100,000 tonnes with domestic market share reaching 40%, and potassium sulphate output is projected to be 400,000 tonnes with a domestic market share reaching 30%. With the projected 500,000 tonnes of hydrochloric acid and 55,000 tonnes of ammonium chloride as co-products, Migao Group intends to become the largest producer of potash based fertilizers in China;
- (d) continue to invest in R&D in order to maintain its position as a leading edge producer of high-quality potash fertilizer in the PRC;
- (e) secure land use rights and construct additional capacity in other regions of China currently under-served by domestic potash based fertilizer suppliers; and
- (f) expand the sale of potash based fertilizers to include export markets.

The future configuration of the Company's core business is to establish production bases in individual regions throughout China and grow market share through Migao Group's advantages in technology, product quality and price.

Employees

As of September 30, 2007, the Company had approximately 600 employees. All of the employees are non-unionized. The Company enjoys good relations with its employees; Migao Group has not experienced any work stoppages in the past. 70% of the employees have college level education or higher.

The personnel structure as at September 30, 2007 was as follows:

Senior Management	42
Research and Development	9
Administrative and Technical	233
Production	300
Marketing	16

According to the national regulations, Migao Group underwrites endowment insurance, maternity insurance, insurance against injury at work, unemployment insurance and medical insurance for all the official staff who have signed labour contracts.

MATERIAL CONTRACTS

The Company entered into the following material contracts in Fiscal 2007, or prior to Fiscal 2007 but still in effect, not in the ordinary course of business:

1. Amended and Restated Acquisition Agreement dated May 18, 2006 among the Company, HK Migao, the shareholders of HK Migao and certain shareholders of the Company in respect of the Reverse Take-over.
2. Warrant Indenture dated May 18, 2006 between the Company and Equity Transfer Services Inc. providing for the issue of common share purchase warrants in connection with the 2006 Private Placement.
3. Warrant Indenture dated February 22, 2007 between the Company and Equity Transfer & Trust Company providing for the issue of common share purchase warrants in connection with the 2007 Private Placement.

RISK FACTORS

The following are certain risk factors inherent in the Company's business and an investment in shares of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected.

Company Risk Factors

Execution of the Business Plan

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

The success of the Company's expansion strategy will depend on a number of factors. There can be no assurance that the Company will be able to achieve planned growth. There can be no assurance that the Company's expansion strategy will be successful, that modifications to its strategy will not be required or that the Company will be able to enhance profitability. In addition, such growth could place a significant strain on the Company's management, operational, financial and other resources. The Company's ability to manage its growth effectively will require it to develop its management information systems capabilities and improve its operational and financial systems. Moreover, the Company will need to train, motivate and manage its employees and attract senior managers and technical professionals. Any failure to expand these areas and implement and improve such systems, procedures, and controls in an efficient manner and to train, motivate and manage its employees and attract senior managers and technical professionals at a pace consistent with the Company's business could have a material adverse effect on the Company's business, financial condition and results of operations.

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

Dependence on Key Personnel

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

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

Key Relationships

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

Dependence on Key Customers

For Fiscal 2007, two customers individually comprised 56% and 6% of revenue for Migao Group. At September 30, 2007, three customers represented 19%, 18% and 18% of total accounts receivable. There can be no assurance that Migao Group will be able to retain its relationships with these or other key customers and there can be no assurance that such customers will continue to purchase products from Migao Group in the future. Any negative change involving any of Migao Group's largest customers, including but not limited to any such customer's financial condition or desire to continue purchasing Migao Group's products, could result in a significant reduction in business that could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Key Suppliers

Migao Group relies primarily on two key potassium chloride suppliers, both located in Russia. There can be no assurance that these or any of Migao Group's suppliers will be able to continue to meet their obligations to Migao Group without interruption or termination or that Migao Group would be able to find alternative sources of supply in a timely manner. Any failure by Migao Group's key suppliers to produce or deliver products as required by Migao Group could have a material adverse effect on the business, results of operations and financial condition of Migao Group.

Competition

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

Competitors may introduce technological innovation in any of the Company's businesses, resulting in increased competitive pressures. The Company's financial resources will be relatively limited when contrasted with those of

many of their competitors. Although the Company's projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of the Company. China can be a fiercely competitive market and small price or quality differentials between otherwise competitive goods and services can make an enormous difference to the consumer. See "The Business – Competition" above.

Market Factors and Volatility of Commodity Prices

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

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

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

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

Environmental Risks and Hazards

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

Operating Risks

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

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

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers, including third party distributors, of the distinctive characteristics and benefits of Migao

Group's products and services. The Company's long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. The Company will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Company will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

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

Proprietary Rights

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

Infrastructure

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

Future Capital Requirements

The development of the business of the Company may require substantial additional financing. The Company's future capital requirements will depend upon many factors, including maintenance, plant expansion and expansion of its sales and marketing efforts. Failure to obtain sufficient financing may result in delaying, scaling back, elimination of, or indefinite postponement of, the development schedule and its current or future programs. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Lending may be obtained from Canadian banks, Chinese banks or other debt markets.

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

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

Technical Substitution

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

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

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

Exchange Rate Fluctuations

The value of the RMB fluctuates and is subject to various factors such as changes in the PRC political and economic conditions. Since 1994, the official exchange rate for the conversion of RMB to US dollars has generally been stable. On July 21, 2005, the RMB was revaluated upwards by approximately 2% against the US dollar when the People’s Bank of China (“PBOC”) announced the change of the RMB exchange regime from a US dollar peg system to a managed floating exchange rate regime based on a basket of currencies. Thereafter, the RMB was allowed to fluctuate daily by not more than 0.3% against the US dollar. On May 18, 2007, PBOC announced the daily fluctuation rate of the RMB against the US dollar would be increased to 0.5% as of May 21, 2007.

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

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

Insurance

The operating entities in Migao Group maintain property and casualty insurance on certain of their assets. However, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. Operating entities in Migao Group may also elect not to be insured against certain liabilities due to high premium costs or for other reasons. Furthermore, although the subsidiaries maintain insurance against such claims and in such amounts each considers adequate, there can be no assurance that such insurance policies will be sufficient to cover each and every claim or loss involving the subsidiaries. In the event the subsidiaries were to suffer an uninsured loss, their business, financial condition and results of operations could be materially adversely affected.

Foreign Operations

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

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

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

Weather Conditions and Natural Disasters

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

Control by Management

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

Seasonality

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

Dividends

The Company has no present intention to declare or pay any dividends in the foreseeable future. The future dividend policy will be determined by the Board of Directors of the Company. See "Dividends" below.

Conflicts of Interest

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

Risks of Doing Business in China

State Ownership

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

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

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, China's economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues

to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, control for foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, government policies relating to currency conversion, taxation, import restrictions and the trading of imported goods, among others, continue to have a significant impact on the overall economy, as does the presence of the government as a market participant as well as the market regulator. Many of the policy changes initiated since 1978 are unprecedented in China, experimental in nature, and are frequently refined and readjusted. Political and social factors may also lead to further refinements and readjustments. Any changes in Chinese political, economic, or social conditions, or to the current laws and regulations, or their interpretations may adversely affect the Company's profitability and prospects.

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

Government Sector Intervention

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

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

Foreign Investment

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

Repatriation of Profit and Currency Conversion

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

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

There can also be no assurance that the availability of foreign currency will be sufficient for the Company’s subsidiaries to satisfy their other foreign currency obligations. This may, in turn, adversely affect the Company’s ability to pay dividends. There is also no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. In addition, failure to obtain approval from SAFE for currency conversion on the capital account may impact on the Company’s capital expenditure plans and its ability to expand in accordance with its objectives.

Tax

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

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

Under current Chinese laws, any dividends HK Migao may receive from its Migao Group subsidiaries are not subject to Chinese tax. There can be no assurance that these dividends will continue not to be subject to tax in the future.

Shareholders’ Rights and Enforcement of Judgements

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

Developing Legal System

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

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

Protection of Intellectual Property Rights

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

Permits and Business Licenses

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

Appropriation

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

Availability of Land

Land in China is divided into agricultural land, construction land and unused land. Pursuant to a series of laws, regulations and policies, conversion of agricultural land to non-agricultural purposes is subject to controls in China. On October 1, 2007, a new property law took effect, further restricting the use or conversion of agricultural land for non-agricultural purposes (which would include Migao Group's purposes). While the new law does not prohibit the use of agricultural land for non-agricultural purposes, it may make it more difficult for Migao Group to secure new land and/or increase the price of available properties.

DIRECTORS AND OFFICERS

The name, address and principal occupation of the directors and executive officers of the Company are as set out below:

Name and Municipality of Residence	Position	Principal Occupation During Past Five Years	Period Served as a Director
Liu Guocai Hamburg, Germany	Chairman, Chief Executive Officer and President of the Company	In addition to his positions with the Company, from 2003 to present Mr. Liu has been Chairman of the Board, General Manager and Chief Executive Officer of the Migao Group. In addition, since 2000 to present, Mr. Liu has also been the General Manager and Chief Executive Officer of Liaoning Yongcheng Economic Trade Development Co., Ltd.	Since May 3, 2006
Michael W. Manley Toronto, Ontario, Canada	Director ⁽¹⁾⁽²⁾	Mr. Manley is a barrister and solicitor by profession. From 1997 to 2004, Mr. Manley was the President of Wesbridge Capital Corporation (“Wesbridge”), a company specializing in advising China based companies. Since 2004, Mr. Manley has been the Chairman and Chief Executive Officer of Wesbridge.	Since May 3, 2006
Peiwei Ni Toronto, Ontario, Canada	Director ⁽²⁾	Since 2004, Mr. Ni has been the President of Wesbridge, a company specializing in advising China based companies. Mr. Ni has also been a real estate intermediary in the Toronto area. Mr. Ni was a radio producer at CBC reporting on business in China until 1999.	Since May 3, 2006
Robert C. Kay Toronto, Ontario, Canada	Director ⁽¹⁾⁽²⁾	As of December 2007, Mr. Kay served as a director of the Canadian Commercial Corporation (a Crown corporation of the Government of Canada). During the past five years, Mr. Kay served in both senior management and as a director dealing primarily with the strategic development of international companies. Mr. Kay also served as a member of the Ontario Municipal Board from February 2003 to August 2004.	Since May 3, 2006
Mark Stauffer Saskatoon, Saskatchewan, Canada	Director	Dr. Stauffer retired in January 2005, however during 2005, was a consultant to the fertilizer industry-supported Potash & Phosphate Institute of Canada (“PPIC”) on its agronomy-based market development program in China. Prior thereto, from 1988, Dr. Stauffer was employed by PPIC, including as President from 1994 to 2004, during which time he conducted the business affairs of PPIC and coordinated its seven international programs. As well, Dr. Stauffer managed CIDA-supported soil fertility/fertilizer projects in China and Pakistan, and provided agronomic market development support to Canadian potash exporter Canpotex Ltd.	Since May 3, 2006

Name and Municipality of Residence	Position	Principal Occupation During Past Five Years	Period Served as a Director
Paul Haber Brooklin, Ontario, Canada	Director ⁽¹⁾	Mr. Haber is the Managing Director of Haber and Co. Ltd. which provides corporate finance and capital market advisory services to small and medium sized businesses. From 2004 through March 2007, Mr. Haber was Vice President, Chief Financial Officer and Corporate Secretary of QuStream Corporation. From 2001 to 2004, Mr. Haber held various positions, including Senior Vice President and Chief Financial Officer, of Protana Inc.	Since March 8, 2007
Paul W. Zhang Toronto, Ontario, Canada	Chief Financial Officer of the Company	Since May 2006, Mr. Zhang has been Chief Financial Officer of the Company. From November 2005, Mr. Zhang was the Chief Financial Officer of HK Migao. In addition, from March 2003 until November 2007, Mr. Zhang was the Managing Partner of Zhang & Du, LLP Chartered Accountants. From November 2001 to March 2003, Mr. Zhang was the Controller and Manager of Accounting of Retirement Residences Real Estate Investment Trust, a TSX-listed entity.	N/A
Jay Hussey Burlington, Ontario, Canada	Vice President, Corporate Finance and Secretary of the Company	Mr. Hussey has been Vice President, Corporate Finance of the Company since May 2006 and Secretary since March 2007. Since August 2005, Mr. Hussey has been the President of MorganBridge, a consulting company assisting Chinese companies in corporate development and communications in North America. Prior thereto, from 1995 Mr. Hussey was Vice President at The Equicom Group, Canada's largest investor relations firm.	N/A

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance and Compensation Committee.

As of September 30, 2007, the directors and executive officers as a group beneficially owned or controlled, directly or indirectly, 18,567,612 of the 37,040,428 outstanding common shares of the Company, being 50.13%.

The term of office of all directors of the Company will expire at the next annual meeting of the shareholders of the Company to be held in 2008.

Penalties and Sanctions

No director or executive officer of the Company has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body including a self-regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Corporate Cease Trade Orders or Bankruptcies

Mr. Kay was formerly an officer of Worldtek (Canada) Ltd. (“**Worldtek**”). Worldtek was subject to cease trade orders issued by the Ontario Securities Commission (the “**OSC**”), the Alberta Securities Commission and the British Columbia Securities Commission on June 15, 2000, September 15, 2000 and October 5, 2000, respectively, for its failure to file audited financial statements for the 1999 fiscal year, which orders remain in effect. The reason for

such failure was the lack of funds of Worldtek. In connection with the failure of Worldtek to file such financial statements, the OSC also issued a temporary management/insider cease trade order against the directors, management and other insiders of Worldtek, including Mr. Kay. Mr. Kay resigned from Worldtek in June 2000. The temporary management/insider cease trade order issued by the OSC against Mr. Kay was subsequently lifted.

Mr. Manley was formerly a director of Canuc Resources Corporation, which was the subject of a cease trade order issued by the OSC and other Canadian regulatory authorities on July 21, 2000, still in effect, for failure to file audited financial statements for the 1999 fiscal year. The reason for that failure was the lack of funds of Canuc Resources Corporation. Mr. Manley resigned as a director of Canuc on April 17, 2001.

Other than as described above, no director or executive officer of the Company is, as of the date of this AIF, or has been, within the ten years prior to the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, (a) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (c) within a year of that person ceasing to act in that capacity, became bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of said company.

Personal Bankruptcies

No director or executive officer of the Company has, within ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

DIVIDENDS

The Company has not declared or paid any dividends since incorporation and has no present intention to declare or pay any dividends in the foreseeable future. Any decision to declare or pay dividends on the Company's shares will be made by its board of directors based upon the Company's earnings, financial requirements and other conditions existing at such future time.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized capital consists of an unlimited number of common shares without nominal or par value.

Holders of common shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each common share held at such meetings. Holders of common shares are entitled to receive dividends if, as and when declared by the board of directors of the Company and to receive pro rata the remaining assets of the Company upon its liquidation, dissolution or winding-up, subject to the rights of holders of any other class or series of shares of the Company having priority over the common shares.

MARKET FOR SECURITIES

The common shares of the Company trade on the TSX under the symbol “MGO”. Trading on the TSXV commenced on May 25, 2006 following completion of the Reverse Take-over. As of May 10, 2007, the common shares of the Company commenced trading on the TSX. The following table sets forth the reported high and low prices and the trading volume for the periods indicated during Fiscal 2007.

Month	TSXV		
	High	Low	Volume
October 2006	\$3.41	\$3.00	286,238
November 2006	\$3.40	\$3.07	462,467
December 2006	\$3.63	\$3.20	347,044
January 2007	\$4.95	\$3.35	1,902,538
February 2007	\$5.75	\$4.19	2,942,795
March 2007	\$6.05	\$5.10	1,296,918
April 2007	\$7.50	\$5.92	2,784,580

Month	TSX		
	High	Low	Volume
May 2007	\$8.10	\$6.90	2,777,124
June 2007	\$8.49	\$6.80	3,385,592
July 2007	\$9.94	\$7.42	6,562,828
August 2007	\$8.48	\$5.51	4,674,438
September 2007	\$8.79	\$7.52	2,687,961

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

A copy of the charter of the Audit Committee is attached as Schedule “A” to this AIF.

Composition of the Audit Committee

The Audit Committee is presently composed of three directors, being Mr. Michael Manley (Chair), Mr. Robert Kay, and Mr. Paul Haber. All three members of the Audit Committee are considered to be independent and financially literate within the meaning of National Instrument 52-110 - Audit Committees.

Relevant Education and Experience

Each of the members of the Audit Committee has considerable education and/or experience relevant to performing his responsibilities as a member of the Audit Committee and to understanding the accounting principles used by the Company in the preparation of its financial statements. Mr. Robert Kay’s relevant education includes Business Accounting from the University of Toronto, Understanding and Analysis of Financial Statements from the Law Society of Upper Canada, and Financial Reporting, Analysis of Financial Statements from McGill University. Mr. Michael Manley has extensive business experience in the private sector and with public companies and is knowledgeable in, familiar with, and has an excellent understanding of the principles used in the preparation of financial statements. He has been a member of several audit committees. Mr. Haber has served as Chief Financial Officer of another public company listed on the TSXV and is Chairman of the Audit Committees of High Desert

Gold Corporation and South American Silver Corp., both of which are listed on the TSX. He is a Chartered Accountant and a Certified Public Accountant.

Pre-approval Policies and Procedures

The Audit Committee approves, on a case by case basis, all non-audit services (and fees therefor) provided to the Company by the Company's external auditors, Moore Stephens Cooper Molyneaux LLP.

External Auditor Service Fees

The aggregate fees billed by the Company's external auditors for the periods indicated were as follows:

Period Ended	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
Fiscal 2006 ⁽¹⁾	\$95,000	Nil	Nil	\$51,043
Fiscal 2007	\$140,000	Nil	Nil	\$90,000

Notes:

- (1) Represents an aggregate of the fees billed by the Company's current auditor from and after May 3, 2006 to September 30, 2006 and fees billed by Murray A. Finkelman, the former auditor of the Company, from October 1, 2005 to May 2, 2006.

Audit Fees

"Audit Fees" were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements as well as services provided in connection with statutory and regulatory filings.

All Other Fees

"All Other Fees" represent the fees billed by the external auditors in connection with quarterly reviews and out-of-pocket expenses incurred in connection with such reviews.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

As above described, pursuant to the Reverse Take-over, the Company acquired all of the common shares of HK Migao on an arm's length basis. Mr. Liu Guocai, appointed Chairman, Chief Executive Officer and President of the Company pursuant to the Reverse Take-over, held indirectly 77.9% of the 20,400 issued and outstanding common shares of HK Migao immediately prior to the Reverse Take-over and the 2006 Private Placement.

Mr. Liu Guocai had an interest in the conversion of \$6,278,482 of long term debt into common shares of the Company in June 2006, as described under "Recent Developments" above.

PROMOTERS

Mr. Liu Guocai, the Chairman, Chief Executive Officer and President of the Company, took the initiative in founding and organizing HK Migao prior to its acquisition by the Company on an arm's length basis pursuant to the Reverse Take-over. Mr. Liu presently owns or controls 17,746,612 common shares of the Company, representing approximately 50.2% of the shares outstanding, but owned or controlled no common shares prior to the acquisition of HK Migao by the Company. See "Interest of Management and Others in Material Transactions" above. The acquisition of Migao Group by HK Migao is described under the "Acquisitions and Dispositions" section of Exhibit II of the 2006 Management Information Circular (pages 64-65). The 2006 Management Information Circular is available on SEDAR at www.sedar.com.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company is Equity Transfer & Trust Company at its principal office in Toronto, Ontario.

EXPERTS

The financial statements of the Company for the financial year ended September 30, 2007 have been audited by Moore Stephens Cooper Molyneux LLP which is independent in accordance with the auditor's rules of professional conduct in the Province of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's information circular dated January 25, 2007. Additional financial information is available in the Company's financial statements and MD&A for its most recently completed financial year.

SCHEDULE “A”

AUDIT COMMITTEE CHARTER

WHEREAS By-law No. 1 of the corporation permits the Board of Directors to appoint an Audit Committee, with such designations as the Board shall determine, and delegate to such committee any of the powers of the Board of Directors except those powers such pertain to matters which may not be delegated pursuant to the *Business Corporations Act* (Ontario);

AND WHEREAS such By-law requires that a majority of members of such committee shall be resident Canadians.

A. Procedural Matters

1. The Audit Committee shall consist of only unrelated Directors.
2. The Audit Committee shall consist of not fewer than three and not more than five Directors, all of whom shall be financially literate and at least one of whom shall have accounting or related financial expertise. For this purpose, “financial literacy” means the ability to read and understand a balance sheet, an income statement, and a cash flow statement; “accounting or related financial expertise” means the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles. A majority of Audit Committee members shall constitute a quorum.
3. The members of the Audit Committee shall be entitled to receive such remuneration for acting as members of the committee as the Board of Directors may from time to time determine.
4. Members of the Audit Committee shall be appointed by the Board of Directors and shall serve at the pleasure of the Board of Directors.
5. A majority of the members of the Audit Committee may from time to time appoint a Chairman from amongst their members to chair the Audit Committee.

B. Functions

The Audit Committee shall:

- (a) review all quarterly unaudited and annual financial statements and accompanying reports to the shareholders, related press releases, earnings guidance disclosure or any other disclosure based on the Corporation’s financial statements prior to the release of those statements;
- (b) make recommendations to be Board of Directors for approval with respect to the annual audited financial statements and, in each case, review:
- (c) the appropriateness of the Corporation’s significant accounting principles and practices, including acceptable alternatives, and the appropriateness of any significant changes in accounting principles and practices;
- (d) the existence and substance of significant accruals, estimates, or accounting judgements;
- (e) unusual or extraordinary items, transactions with related parties, and adequacy of disclosures;
- (f) asset and liability carrying values;
- (g) income tax status and related reserves;
- (h) qualifications contained in letters of representation;

- (i) assurances of compliance with covenants in trust deeds or loan agreements;
- (j) business risks, uncertainties, commitments, and contingent liabilities;
- (k) the adequacy of explanations for significant financial variances between years;
- (l) oversee the external audit process, including:
 - (i) the selection and appointment of an auditing firm to conduct the annual audit of the Corporation's annual financial statements and review of the Corporation's quarterly financial statements (and related notes and management's discussion and analysis in each case) on the basis that the auditing firm is ultimately accountable to the Board of Directors and the Audit Committee as representatives of the shareholders of the Corporation;
 - (ii) assessing the independence of appointed auditing firm;
 - (iii) reviewing of the external audit plan comprising a fee estimate, objectives, scope, materiality, timing, locations to be visited, areas of audit risk, and coordination with corporate accounting staff;
- (m) reviewing of audit reports and reviews and findings, including corresponding management responses;
- (n) approving the audit fee;
- (o) approving any non-audit services provided by the auditing firm, the fees charges by the firm for such services and the impact on the independence of the auditor provided that the auditing firm is prohibited from providing appraisal or valuation services, fairness opinions, actuarial services, internal audit outsourcing services, management functions or human resource forces, bookkeeping or other services relating to the accounting records, financial statements of the Corporation or financial information systems designed in implementation. The Audit Committee shall be entitled to establish, from time to time, pre-approval arrangements for specific categories of permitted audit related services;
- (p) private discussions regarding the quality of the corporation's significant accounting principles and practices, the financial personnel, the level of cooperation received, unresolved material differences of opinion or disputes, and the effectiveness of the work of internal audit.
- (q) review the effectiveness of control and control systems utilized by the Corporation in connection with financial reporting and other identified business risks, including but not limited to health, safety, and environmental risks;
- (r) review incidents of fraud, illegal acts, and conflicts of interest;
- (s) review documents filed with securities commissions, including the Corporation's M D & A and annual report;
- (t) review material valuation issues;
- (u) review the quality and accuracy of computerized accounting systems, the adequacy of the protection against damage, disruption, and security of confidential information through information systems reporting;
- (v) review current and outstanding litigation;

- (w) review the expenses and perquisites, including the use of company assets, by senior officers;
- (x) review material matters that come before audit committees of subsidiaries;
- (y) review cases where management has sought accounting advice on a specific issue from an accounting firm other than the one appointed as auditors.

C. Resources, Meetings, and Reports

1. The Audit Committee shall have adequate resources to discharge its responsibilities.
2. The Audit Committee shall meet not less than four times per year.
3. The meetings of the Audit Committee shall ordinarily include the Chief Financial Officer provided that the Audit Committee may meet in private at any time it chooses.
4. The Board of Directors shall be kept informed of Audit Committee's activities by a report presented at the Board meeting following each Audit Committee meeting.
5. The Audit Committee shall keep minutes of its meetings in which shall be recorded all actions taken by the audit committee which minutes shall be made available to the board of Directors.
6. The Audit Committee shall conduct an annual review of the adequacy of this charter and recommend any proposed change to the Board of Directors for approval.