Migao Corporation

Interim Consolidated Financial Statements
Second Quarter, Fiscal 2008
Ended March 31, 2008
(Unaudited)

Migao Corporation

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For the three and six months ended March 31, 2008 and 2007
(Unaudited)

Migao Corporation

Interim Consolidated Balance Sheets
(in thousands of Canadian dollars)

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ **32,875**	$ 17,453
Accounts receivable	**16,943**	6,373
Prepayments, deposits and other receivables *(note 2)*	**32,973**	10,614
Inventory *(note 3)*	**30,852**	19,101
Income taxes receivable	**1,306**	1,159
	114,949	54,700
Plant and equipment *(note 5)*	**31,275**	20,518
Construction in progress	**3,442**	5,972
Land use rights *(note 6)*	**20,246**	18,367
Future income tax assets, net	**470**	470
	$ **170,382**	$ 100,027
Liabilities		
Current liabilities		
Bank indebtedness *(note 7)*	$ **4,325**	$ 4,578
Accounts payable and accrued liabilities *(note 6)*	**17,548**	9,958
Customer deposits	**17,751**	3,451
Due to related party *(note 4)*	**24**	45
Income taxes payable	**788**	-
	40,436	18,032
Shareholders' equity		
Share capital *(note 8)*	**84,593**	54,013
Contributed surplus *(note 8)*	**8,232**	8,551
Retained earnings *(note 9)*	**34,192**	26,527
Accumulated other comprehensive loss *(note 10)*	**2,929**	(7,096)
	129,946	81,995
Commitments *(note 12)*		
Subsequent events *(note 15)*		
	$ **170,382**	$ 100,027

The accompanying notes are an integral part of these interim consolidated financial statements.

Approved on behalf of the Board of Directors

Signed by "Guocai Liu" — Director

Signed by "Michael Manley" — Director

Migao Corporation

Interim Consolidated Statements of Operations and Retained Earnings
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	**March 31, 2008**	March 31, 2007
Revenues	**$ 34,506**	$ 27,712	**$ 59,186**	$ 49,443
Cost of goods sold *(note 5)*	**26,250**	21,431	**45,090**	38,489
Gross profit	**8,256**	6,281	**14,096**	10,954
Operating expenses				
General and administrative *(notes 5 and 6)*	**1,214**	1,018	**2,015**	1,764
Selling	**1,236**	1,335	**2,411**	2,314
Professional and consulting	**264**	179	**372**	391
Stock-based compensation *(note 8)*	**264**	245	**491**	496
Finance costs	**88**	-	**169**	-
Pre-operating costs	**100**	-	**117**	-
	3,166	2,777	**5,575**	4,965
Income from operations	**5,090**	3,504	**8,521**	5,989
Other income	**36**	34	**77**	86
Income before income taxes	**5,126**	3,538	**8,598**	6,075
Provision for income taxes	**561**	200	**933**	328
Net income for the period	**4,565**	3,338	**7,665**	5,747
Retained earnings, beginning of period	**29,627**	17,730	**26,527**	15,321
Retained earnings, end of period	**$ 34,192**	$ 21,068	**$ 34,192**	$ 21,068
Income per share:				
Basic	**$ 0.12**	0.10	**$ 0.20**	0.19
Diluted	**$ 0.11**	0.10	**$ 0.20**	0.19
Weighted average number of common shares outstanding:				
Basic	**38,187,058**	31,859,414	**37,710,652**	30,492,712
Diluted	**40,820,628**	32,726,894	**40,351,199**	30,875,196

The accompanying notes are an integral part of these interim consolidated financial statements.

Migao Corporation

Interim Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars)
(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	**March 31, 2008**	March 31, 2007
Net income for the period	**$ 4,565**	$ 3,338	**$ 7,665**	$ 5,747
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**8,375**	(351)	**10,025**	2,465
Comprehensive income	**$ 12,940**	$ 2,987	**$ 17,690**	$ 8,212

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Migao Corporation

Interim Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)
(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	**March 31, 2008**	March 31, 2007
Cash flows from operating activities				
Net income	$ **4,565**	3,338	$ **7,665**	5,747
Items not affecting cash:				
Amortization	**615**	616	**1,054**	971
Stock-based compensation	**264**	245	**491**	496
Changes in non-cash working capital items:				
Accounts receivable	**(8,130)**	7,723	**(9,406)**	(266)
Prepayments, deposits, and other receivables	**(4,159)**	(1,367)	**(18,194)**	(3,915)
Inventory	**(6,941)**	(6,676)	**(9,296)**	(6,841)
Accounts payable and accrued liabilities	**3,122**	182	**6,530**	1,030
Customer deposits	**(1,579)**	(2,335)	**12,472**	(1,223)
Tax payables	**31**	67	**690**	82
	(12,212)	1,793	**(7,994)**	(3,919)
Cash flows from investing activities				
Purchase of plant and equipment	**(780)**	(1,294)	**(1,382)**	(4,554)
Construction in process	**(4,205)**	(939)	**(5,978)**	(2,258)
Payments for land use rights	**(488)**	(2,400)	**(488)**	(4,920)
	(5,473)	(4,633)	**(7,848)**	(11,732)
Cash flows from financing activities				
Repayment of bank loan	**(701)**	(4,530)	**(701)**	(1,197)
Advances from related parties, net	-	281	-	642
Issuance of common shares, net	**26,544**	23,016	**26,544**	23,016
Proceeds from exercise of underwriters' compensation options	**8**	29	**8**	181
Proceeds from exercise of warrants	**1,750**	1,020	**3,048**	1,020
Proceeds from exercise of stock options	-	-	**171**	-
	27,601	19,816	**29,070**	23,662

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows - continued
(in thousands of Canadian dollars)
(Unaudited)

	For the three months ended		For the six months ended	
	March 31, 2008	March 31, 2007	**March 31, 2008**	March 31, 2007
Foreign exchange gain on cash held in foreign currency	**1,815**	819	**2,194**	1,241
Increase in cash and cash equivalents	**11,731**	17,795	**15,422**	9,252
Cash and cash equivalents, beginning of period	**21,144**	7,773	**17,453**	16,316
Cash and cash equivalents, end of period	**$ 32,875**	$ 25,568	**$ 32,875**	$ 25,568

Cash and cash equivalents consist of:		
Cash on hand	**$ 31,131**	$ 18,249
Term deposit	**40**	40
Bank notes	**1,704**	7,279
	$ 32,875	$ 25,568

Total interest paid during the three and six months period ended March 31, 2008 was $81 and $160 (RMB 0.6 million and RMB 1.2 million) (March 31, 2007 - $46 or RMB 0.3 million and $60 or RMB 0.4 million), respectively. Total tax paid during the three and six months period ended March 31, 2008 were both $371 (RMB 2.8 million) (March 31, 2007 - $134 or RMB 0.9 million and $240 or RMB 1.6 million, respectively).

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Nature of Operations and Basis of Presentation

Nature of Operations

Migao Corporation ("the Company" or "Migao"), through its wholly owned Subsidiaries, is a manufacturer of specialty potash-based fertilizers, produced at its four operational facilities in the People's Republic of China ("PRC").

The Company

Migao holds 100% of the issued and outstanding capital of H.K. Migao Industry Limited ("HK Migao"), which in turn holds 100% of the issued and outstanding capital of Sichuan Migao Chemical Fertilizer Industry Co., Ltd. ("Sichuan Migao"), Guangdong Migao Chemical Co., Ltd. ("Guangdong Migao"), Liaoning Migao Chemical Co., Ltd. ("Liaoning Migao"), Migao Chemical Industry (Shanghai) Co., Ltd. ("Shanghai Migao"), Migao Chemical (Changchun) Co., Ltd. ("Changchun Migao"), and Migao Chemical (Tianjin) Co., Ltd. ("Tianjin Migao") (collectively, the "Subsidiaries"). Migao also indirectly holds 100% of the issued and outstanding capital of Migao Business Hotel Limited through Guangdong Migao.

Basis of Presentation

These unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries in the PRC. These interim financial statements have been prepared by the management of the Company using the same accounting policies and methods as the most recently audited financial statements of Migao, except as disclosed below. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the audited financial statements of Migao for the year ended September 30, 2007. Interim results are not necessarily indicative of the results expected for the fiscal year.

Adoption of New Accounting Policies

Effective October 1, 2007, the Company adopted the following new accounting standards.

Capital Management
The new standard 1535 – Capital Disclosures requires the Company to disclose information about the Company's objectives, policies and processes for the management of its capital.

Financial Instruments – Disclosure and Presentation
The new standards 3862 – Financial Instruments – Disclosures and 3863 – Financial Instruments – Presentation require the disclosure of information with regards to the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

Recent Accounting Pronouncements

Goodwill and Intangible Assets
The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new

(in thousands of Canadian dollars, except per share amounts)

1. Nature of Operations and Basis of Presentation – continued

Recent Accounting Pronouncements – continued

Goodwill and Intangible Assets - continued
standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")
In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. Prepayments, Deposits, and Other Receivables

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Prepayments for raw materials	**$ 26,476**	$ 7,478
Prepayments for construction costs	**2,828**	904
Prepayment for transportation services	**209**	23
Prepayment for machinery	**206**	632
Deposits for the supply of utilities	**165**	151
Deposits for the sale of finished goods	**189**	-
VAT receivable	**972**	583
Other receivables and deposits	**1,928**	1,026
	$ 32,973	$ 10,614

3. Inventory

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Raw materials	**$ 23,908**	$ 13,931
Finished goods	**6,781**	1,075
Packing materials	**150**	90
Goods in transit	**13**	4,005
	$ 30,852	$ 19,101

Notes to Interim Consolidated Financial Statements
For the three and six months ended March 31, 2008 and 2007
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

4. Related Party Balance

At the end of the periods, the Company had related party balance as follows:

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Amount due to:		
Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC")	**$ 24**	$ 45

LYEDC is controlled by an officer and director of Migao. The amounts are non-interest bearing and due on demand.

5. Plant and Equipment

March 31, 2008 (Unaudited)

	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	**$ 17,552**	**$ 1,072**	**$ 16,480**
Machinery and equipment	**16,970**	**3,068**	**13,902**
Vehicles	**1,023**	**385**	**638**
Office equipment	**412**	**157**	**255**
	$ 35,957	**$ 4,682**	**$ 31,275**

September 30, 2007 (Audited)

	Cost	Accumulated Amortization	Net Book Value
Buildings and improvements	$ 10,684	$ 701	$ 9,983
Machinery and equipment	11,984	2,181	9,803
Vehicles	794	289	505
Office equipment	338	111	227
	$ 23,800	$ 3,282	$ 20,518

Amortization expense for the three and six months ended March 31, 2008 were $580 and $986 (March 31, 2007 - $468 and $821), respectively, and are included in cost of goods sold and general and administrative expense.

Notes to Interim Consolidated Financial Statements
For the three and six months ended March 31, 2008 and 2007
(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

6. Land Use Rights

	March 31, 2008 (Unaudited)	September 30, 2007 (Audited)
Land use rights	**$ 20,574**	$ 18,597
Less: accumulated amortization	**328**	230
	$ 20,246	$ 18,367

As of March 31, 2008, the Company had sixteen land leases from the Chinese government with terms of fifty to seventy years.

Amortization expense for the three and six months ended March 31, 2008 were $35 and $68 (March 31, 2007 - $148 and $150), respectively, and are included in general and administrative expense.

As of March 31, 2008, the Company had not obtained the land use right certificates for eight of the land leases and approximately $4,800 has been accrued as the balance due on the issuance of the certificates. It is common practice in the PRC that the land use right certificates are only issued when the government has serviced the land ready for construction.

Under the PRC law, land use rights can be revoked and the tenants can be forced to vacate at any time when re-development of the land is in the public interest.

7. Bank Indebtedness

At March 31, 2008, the Company has short-term bank loans outstanding totaling $4,325 (RMB 29.5 million) (September 30, 2007 - $4,578 or RMB 34.5 million) for working capital purposes. Subsequent to March 31, 2008 and as of May 9, 2008, there were $732 (RMB 5.0 million) loan payments made on the outstanding bank loans.

Amount	Due Date	Interest per annum	Secured by
$ 732	April 20, 2008	6.7095%	certain land use rights
$ 1,467	May 29, 2008	6.57%	certain land use rights
$ 2,126	August 20, 2008	6.9084%	certain land use rights and buildings

Total carrying value of the security was $1,586 (RMB 10.8 million). Total interest paid during the three and six months period ended March 31, 2008 was $81 and $160 (RMB 0.6 million and RMB 1.2 million) (March 31, 2007 - $46 or RMB 0.3 million and $60 or RMB 0.4 million), respectively.

(in thousands of Canadian dollars, except per share amounts)

8. Share Capital

(a) Authorized:

Unlimited common shares without par value.

(b) Issued common shares

	Number of Shares		Amount
Balance – September 30, 2007	**37,040,428**	**$**	**54,013**
Issued on exercise of underwriters' compensation options *(i)*	2,862		8
Fair value of underwriters' compensation options *(i)*	-		3
Fair value of warrants issued *(i)*	-		(2)
Exercise of warrants *(ii)*	530,890		1,964
Fair value of warrants exercised *(ii)*	-		350
Exercise of warrants *(iii)*	204,450		1,084
Fair value of warrants exercised *(iii)*	-		374
Exercise of stock options *(iv)*	60,000		171
Fair value of stock options exercised *(iv)*	-		84
Issued pursuant to a private placement *(v)*	3,593,750		28,750
Share issuance costs *(v)*	-		(2,206)
Balance – March 31, 2008	**41,432,380**	**$**	**84,593**

(i) Each of the 2,862 underwriters' compensation options exercised consisted of 1 common share and ½ common share purchase warrant. The fair value of options were estimated using the Black-Scholes option pricing model to be $1.09 per option. The warrants issued on the exercise of these options are valued at $1.38 per warrant.

(ii) During the quarter ended March 31, 2008, 414,500 (530,890 for the six months ended March 31, 2008) of the common share purchase warrants issued in relation to the private placement financing on May 18, 2006 were exercised at $3.70 per share. The warrants were originally valued at $0.66 per warrant.

(iii) During the quarter ended March 31, 2008, 40,750 (204,450 for the six months ended March 31, 2008) of the common share purchase warrants issued in relation to the private placement financing on February 22, 2007 were exercised at $5.30 per share. The warrants were originally valued at $1.83 per warrant.

(iv) During the quarter ended March 31, 2008, none (60,000 for the six months ended March 31, 2008) of the common share purchase options with an exercise price of $2.85 per common share issued to the employees and directors of the Company were exercised. The stock options were valued at $1.40 per option.

(in thousands of Canadian dollars, except per share amounts)

8. Share Capital - continued

(b) Issued common shares - continued

(v) On March 13, 2008, the Company completed a private placement of 3,593,750 common shares priced at $8.00 per share. Pursuant to the Underwriting Agreement, the Company paid the agents an underwriting commission of $0.46 per share, reflecting a commission of 5.75%. In addition to the underwriting commission, the Company paid $553 in total for expenses incurred on this private placement.

(c) Contributed surplus

		Amount
Balance – September 30, 2007	**$**	**8,551**
Fair value of exercised underwriters' compensation options		(3)
Fair value of warrants issued on the exercise of underwriters' compensation options		2
Stock-based compensation expense		491
Fair value of warrants exercised		(724)
Fair value of stock options exercised		(84)
Balance – March 31, 2008	**$**	**8,232**

(d) Stock options

Under the Company's stock option plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The board of directors or such other persons designated by the board administers the plan and determines the vesting and terms of each award.

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

The following table summarizes the activity of the Company's stock option plan.

	Options		Weighted average exercise price
Outstanding – September 30, 2007	**1,185,000**	**$**	**3.38**
Granted during the period	40,000		9.93
Exercised during the previous period	(60,000)		2.85
Outstanding – March 31, 2008	**1,165,000**	**$**	**3.63**

(in thousands of Canadian dollars, except per share amounts)

8. Share Capital - continued

(d) Stock options - continued

The following table summarizes the weighted average information about the outstanding stock options.

As of March 31, 2008

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$2.85	1,005,000	3.13	228,333
$7.69	60,000	4.25	NIL
$8.46	60,000	4.25	NIL
$9.93	40,000	4.75	NIL
$3.63	**1,165,000**	**3.30**	**228,333**

During the quarter ended March 31, 2008, 40,000 options were issued to an employee of the Company. Each option entitles the holder to purchase one common share of the Company at a price of $9.93 per common share. These options have vesting periods of up to three years and an exercise period of up to five years, expiring on January 7, 2013. The fair value of the options issued was estimated using the Black-Scholes option pricing model on the date of issue to be $7.60 per option. Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 3.22%; expected volatility 102%; and expected life of 5 years. Stock-based compensation expense for the three months ended March 31, 2008 was $43 (March 31, 2007 – NIL).

Total stock-based compensation expense on the options granted in the prior years for the three and six months ended March 31, 2008 was $221 and $448 (March 31, 2007 - $245 and $496), respectively.

(e) Warrants

As at March 31, 2008, the following share purchase warrants were outstanding:

September 30, 2007	Issued	Exercised	Expired	March 31, 2008	Exercise Price	Expiry Date
2,337,333	1,431	530,890	-	**1,807,874**	$ 3.70	May 18, 2008
2,825,450	-	204,450	-	**2,621,000**	$ 5.30	February 22, 2009
5,162,783	1,431	735,340	-	**4,428,874**		

(in thousands of Canadian dollars, except per share amounts)

8. Share Capital - continued

(f) Underwriters' Compensation Options

As at March 31, 2008, the following underwriters' compensation options were outstanding:

September 30, 2007 (outstanding and exercisable)	Issued	Exercised	Expired	March 31, 2008 (outstanding and exercisable)	Exercise Price	Weighted average remaining contractual life (years)
5,862	-	2,862	-	**3,000**	$ 2.85	0.13
225,938	-	-	-	**225,938**	$ 4.15	0.90
231,800	-	-	-	**228,938**	$ 4.13	0.89

9. Retained Earnings

Under the laws of the PRC, all wholly owned foreign investment entities have to set aside a portion of their net income each year as a general reserve fund until the fund has reached 50% of the entity's paid in capital. The Company is also required to set aside a portion of net income as an expansion fund. These funds are allowed to be distributed to shareholders at the time of winding up. The fund accumulated by the Company as at March 31, 2008 was $3,395 (RMB 23.2 million; September 30, 2007 – $2,284 or RMB 17.2 million).

10. Accumulated Other Comprehensive Loss

	Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations
Balance – September 30, 2007	**$ (7,096)**
Unrealized foreign currency translation gains during the period	**10,025**
Balance – March 31, 2008	**$ 2,929**

11. Segmented Information

The Company has one operating segment, being the production and sale of specialty potash-based fertilizer, along with their associated by-products. All of the Company's assets and operations, with the exception of a corporate office in Toronto, Canada, are located in the PRC.

12. Commitments

Purchase commitments for raw materials and supplies in the amount of approximately $42,100 (RMB 287 million) exist as of March 31, 2008. These contracts were entered into in the normal course of business.

Commitments on capital expenditures in the amount of approximately $7,200 (RMB 49 million) exist as of March 31, 2008. These contracts were entered into in the normal course of business.

13. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's shareholders' equity. The Company has a small amount of debt for working capital purposes and therefore net earnings generated from operations are mostly available for reinvestment in the Company. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company does not have a defined share repurchase plan and buy and sell decisions are made depending on market prices and regulatory restrictions.

There were no changes in the Company's approach to capital management during the period. Except for as disclosed in Note 9, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

14. Financial Instruments and Risk Management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign currency risk

Our global operations expose us to foreign currency fluctuations. Revenues and related expenses generated from our Chinese subsidiaries are generally denominated in Chinese Renminbi ("RMB"), with certain raw material purchases and sales denominated in US dollars. Head office expenditures are generally denominated in Canadian dollars. Therefore, our primary currencies include RMB, US dollars and Canadian dollars. The Consolidated Statements of Operations of our global operations are translated into Canadian dollars at the average exchange rates in each applicable period. To the extent the Canadian dollar strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into Canadian dollars results in reduced revenues, operating expenses and net income for our international operations. Similarly, our revenues, operating expenses and net income will increase for our international operations if the Canadian dollar weakens against foreign currencies. We cannot predict the effect foreign exchange fluctuations will have on our results going forward. However, if there is an adverse change in foreign exchange rates versus the Canadian dollar, it could have a material effect on other comprehensive income.

(in thousands of Canadian dollars, except per share amounts)

14. Financial Instruments and Risk Management - continued

Market Risk – continued

Foreign currency risk - continued

At March 31, 2008, through its wholly owned, self-sustaining subsidiaries, the Company had cash and cash equivalents of $30,964, accounts receivable of $16,820, other receivables of $1,871, accounts payable and accrued liabilities of $17,219, and bank indebtedness of $4,325, which were denominated in RMB. Gains and losses arising upon translation of these amounts into Canadian dollars for inclusion in the consolidated financial statements are recorded within other comprehensive income, a component of shareholder's equity. A 10% change in the average exchange rate between C$/RMB on the financial instruments shall have a $2,820 effect on the other comprehensive income in Canadian dollars.

Interest rate risk

The Company is exposed to interest rate risk on its short-term bank loans and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuation will be significant.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large PRC State-owned and private companies. A significant portion of the Company's accounts receivable is from long-time customers and the Company receives prepayments and deposits from them for a large portion of its sales. Over the last three years, the Company has not suffered any significant credit related losses with any of its customers.

At March 31, 2008, the Company does not consider any of its financial assets to be impaired.

The following table provides information regarding the ageing of financial assets that are past due but which are not impaired.

Current	90 – 180 days	180 – 365 days	365 days +	Carrying value on the balance sheet
$14,667	$1,736	$528	$12	$**16,943**

14. Financial Instruments and Risk Management - continued

Credit risk - continued

The definition of items that are past due is determined by reference to terms agreed with individual customers. None of the amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

The carrying amount of financial assets represents the maximum credit exposure. Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts. As well, deposits by certain customers were often made which also helps to mitigate the risk if there is any.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's growth is financed through a combination of the cash flows from operations, borrowing under the existing credit facilities and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

At March 31, 2008 the Company's cash and cash equivalents balance was $32,875 and working capital balance was $74,513. As at March 31, 2008, short-term bank loans in the amount of $4,325 (RMB 29.5 million) were outstanding under the Company's credit facilities.

Commodity Price Risk

Manufacturing costs for the Company's products are affected by the price of raw materials, namely potassium chloride, sulfuric acid, ammonium nitrate and certain other energy generating sources. In order to manage this risk, the Company includes a clause regarding transfer of risk to customers in all the medium and long-term sales contract in order to renegotiate the prices in the event of change. In addition, the Company had been utilizing its strong working capital position in stocking raw materials when their price is anticipated to rise.

14. Financial Instruments and Risk Management - continued

Fair Value

The fair value of cash and cash equivalents, accounts receivable, other receivables, bank indebtedness, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturities. The fair value of the amount due to related party is not readily determinable due to the related party nature of the advances.

15. Subsequent Events

Subsequent to March 31, 2008 and as of May 9, 2008, 282,514 warrants, 3,000 underwriters' compensation options, and 255,000 stock options were exercised for gross proceeds of $1,781.

Migao Corporation

Management Discussion and Analysis

Second Quarter, Fiscal 2008
Ended March 31, 2008

Prepared by Management

(Unaudited)

May 9, 2008

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Migao Corporation (the "Company" or "Migao") and the financial performance for the three and six months ended March 31, 2008. This discussion and analysis should be read in conjunction with the unaudited Interim Consolidated Financial Statements and related notes as at and for the period ended March 31, 2008 and the audited Consolidated Financial Statements and related notes as at and for the period ended September 30, 2007. Reference should also be made to the Company's filings with Canadian securities regulatory authorities which are available at www.sedar.com.

All amounts are in Canadian dollars unless otherwise noted (tabular amounts are in thousands of Canadian dollars) and prepared in accordance with Canadian Generally Accepted Accounting Policies.

At March 31, 2008, the Company had 41,432,380 common shares outstanding. At May 9, 2008, the Company has 41,631,394 common shares outstanding.

Forward-Looking Information

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address Migao's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at May 9, 2008.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the "Risk Factors" section.

Overview

Migao, through its wholly owned subsidiaries (referred herein as "Sichuan Migao", "Guangdong Migao", "Liaoning Migao", "Shanghai Migao", "Changchun Migao" and "Tianjin Migao"), owns land use rights and/or operates fertilizer production plants in various strategic locations in the People's Republic of China ("PRC") for the production and sales of specialty potash fertilizer (potassium nitrate and potassium sulphate), along with their by-products, to the Chinese domestic agricultural market. These fertilizers provide China's economic crop (i.e. tobacco, fruit and vegetable) growers added opportunities for improving crop quality and increasing crop yield in an environmentally responsible manner, and contributing to the overall agricultural development of China.

China has few potash reserves and all are concentrated in the northwest region where transportation costs to the economically developed eastern and southern coastal regions are prohibitive. Because of this shortage, the development of nitrogenous and phosphorous fertilizers in China has been rapid but the development of potash fertilizer has been slow, causing a usage imbalance. Migao is positioned to capitalize on the value added chemical fertilizer market in China.

In addition to measures based on Canadian Generally Accepted Accounting Principles ("GAAP") in this MD&A, we use the term earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. In this MD&A, we may describe certain 'income' and 'expense' items as unusual or non-recurring. These terms are not defined by GAAP. Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

Highlights for the Quarter

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

On April 24, 2008 the Company announced that it had negotiated prices for its potash-based products reflecting more than a 100% increase over the average selling price in 2007, thereby demonstrating the Company's commitment and ability to maintain gross margin as a percentage of revenue.

On April 2, 2008, the Company announced the construction of a 120,000 tonne sulphuric acid production at Liaoning Migao. This facility will ensure Migao is able to obtain reliable supplies of this key product while at the same time improving gross profit.

On March 13, 2008, the Company completed a private placement of 3,593,750 common shares priced at $8.00 per share for gross proceeds of $28.8 million.

On February 15, 2008, the Company announced that it had entered into a long term potash supply contract with JSC Silvinit thereby securing sufficient supply to meet the Company's long term needs.

Performance of Migao

Key performance indicators

The key performance indicators for Migao are revenue growth, gross profit and EBITDA / net income.

The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependant on the Company being able to expand production capacity either at existing locations or by building facilities at new locations.

The Company is aiming to achieve gross profit in the range of 22% to 24% of revenue on an annual basis. The inputs into the Company's production process can be expensive and volatile in terms of price. Gross profit will be an indicator of how well the Company is managing its production costs and customer contract negotiations.

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

Measurement

Below in "Quarterly Results" and "Results of Operations" are two tables the Company uses to assess performance. The first table presents the Company's consolidated results for the last eight quarters. The second table sets out the Company's consolidated results for the quarter and six months ended March 31, 2008, compared with the same periods last year.

Quarterly Results

in thousands of Canadian dollars	Fiscal 2008		Fiscal 2007				Fiscal 2006	
except per share and percentage data	*Q2*	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	***34,506***	24,680	25,496	26,865	27,712	21,731	15,434	15,426
Gross profit	***8,256***	5,840	4,246	6,339	6,281	4,674	3,626	3,113
Gross profit (% of revenue)	***23.9%***	23.7%	16.7%	23.6%	22.7%	21.5%	23.5%	20.2%
Selected operating expenses:								
Selling	***1,236***	1,175	765	950	1,335	980	592	193
General and administrative	***1,214***	801	581	968	1,018	746	694	545
Stock-based compensation	***264***	227	226	186	245	251	251	119
Professional	***264***	108	261	321	179	211	156	124
Finance costs	***88***	81	288	-	-	-	-	-
Pre-operating costs	***100***	17	368	-	-	-	-	-
Other income	***36***	41	72	44	35	51	10	36
Income taxes	***561***	371	(462)	791	200	128	112	161
Income taxes (% of revenue)	***1.6%***	1.5%	(1.8%)	2.9%	0.7%	0.6%	0.7%	1.0%
Effective tax rate (% of income before taxes)	***10.9%***	10.7%	(25.2%)	20.0%	5.7%	5.0%	5.8%	7.4%
Net income	***4,565***	3,100	2,292	3,167	3,338	2,409	1,956	2,006
Net income (% of revenue)	***13.2%***	12.6%	9.0%	11.8%	12.0%	11.1%	12.7%	13.0%
EBITDA	***5,830***	3,991	2,214	4,530	4,250	3,087	2,592	2,439
EBITDA (% of revenue)	***16.9%***	16.2%	8.7%	16.9%	15.3%	14.2%	16.8%	15.8%
Earnings per share *(in $):*								
Basic	***0.12***	0.08	0.06	0.09	0.10	0.08	0.08	0.08
Diluted	***0.11***	0.08	0.06	0.08	0.10	0.08	0.08	0.08

Results of Operations

Consolidated Results

The following table sets out the Company's consolidated results for the quarter and six months ended March 31, 2008, compared with the same periods last year.

In thousands of Canadian dollars except per share and percentage data	Q2 2008	Q2 2007	Increase (Decrease)	% Increase (Decrease)	YTD 2008	YTD 2007	Increase (Decrease)	% Increase (Decrease)
Sales	34,506	27,712	6,794	24.5%	59,186	49,443	9,743	19.7%
Gross profit	8,256	6,281	1,975	31.4%	14,096	10,954	3,142	28.7%
Gross profit (% of sales)	23.9%	22.7%	1.2%	5.3%	23.8%	22.2%	1.6%	7.2%
Selling expenses	1,236	1,335	(99)	(7.4%)	2,411	2,314	97	4.2%
Selling expenses (% of sales)	3.6%	4.8%	(1.2%)	(25.0%)	4.1%	4.7%	(0.6%)	(12.8%)
G & A	1,214	1,018	196	19.3%	2,015	1,764	251	14.2%
G & A (% of sales)	3.5%	3.7%	(0.2%)	(5.4%)	3.4%	3.6%	(0.2%)	(5.6%)
Professional	264	179	85	47.5%	372	391	(19)	(4.9%)
Professional (% of sales)	0.8%	0.6%	0.2%	33.3%	0.6%	0.8%	(0.2%)	(25.0%)
Stock-based compensation	264	245	19	7.8%	491	496	(5)	(1.0%)
Stock-based compensation (% of sales)	0.8%	0.9%	(0.1%)	(11.1%)	0.8%	1.0%	(0.2%)	(20.0%)
Other income	36	35	1	2.9%	77	86	(9)	(10.9%)
Other income (% of sales)	0.1%	0.1%	0%	0%	0.1%	0.2%	(0.1%)	(50.0%)
Income taxes	561	200	361	180.5%	933	328	605	184.5%
Income taxes (% of sales)	1.6%	0.7%	0.9%	128.6%	1.6%	0.7%	0.9%	128.6%
Effective tax rate (% of net income before taxes)	10.9%	5.7%	5.2%	91.2%	10.9%	5.4%	5.5%	100.9%
Net income (loss)	4,565	3,338	1,227	36.8%	7,665	5,747	1,918	33.4%
Net income (loss) (% of sales)	13.2%	12.0%	1.2%	10.0%	13.0%	11.6%	1.4%	12.1%
Earnings per share								
Basic	0.12	0.10			0.20	0.19		
Diluted	0.11	0.10			0.20	0.19		
Weighted average number of common shares outstanding								
Basic	38,187,058	31,859,414			37,710,652	30,492,712		
Diluted	40,820,628	32,726,894			40,351,199	30,875,196		

Revenues

Revenues for the quarter ended March 31, 2008 increased by $9.8 million (or 39.8%) compared with the previous quarter ended December 31, 2007. The increased revenue is mainly due to the expanded production capacity in both Sichuan and Guangdong facilities and the newly completed Changchun Migao (40,000 tonnes) attaining full production capacity throughout the quarter.

Revenues for the quarter and the six months ended March 31, 2008 increased by $6.8 million (or 24.5%) and $9.7 million (or 19.7%), respectively, compared with the same periods last year. The significant increases are mainly due to the expanded production capacities at certain facilities. The run rate for the core products was at 260,000 tonnes as of March 31, 2008, compared with 200,000 tonnes as of March 31, 2007.

Migao earns all of its revenues in Chinese Renminbi. Accordingly, reported revenues will fluctuate with changes in the exchange rate to Canadian dollars. The average exchange rate for the quarter ended March 31, 2008 was $0.1402 to 1 Chinese Renminbi. The average exchange rate for the quarter ended March 31, 2007 was $0.1510 to 1 Chinese Renminbi. The average exchange rate for the previous quarter ended December 31, 2007 was $0.1321 to 1 Chinese Renminbi.

The following is a summary of the Company's facilities and production capacities as of March 31, 2008.

	Core Product	Annual Capacity (tonnes)	By-Product	Annual Capacity (tonnes)	Production Commencement
Sichuan	Potassium Nitrate	80,000	Ammonium Chloride	44,800	December 2003
Guangdong	Potassium Sulphate	100,000	Hydrochloric Acid	120,000	December 2004
Liaoning	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2005
Changchun	Potassium Sulphate	40,000	Hydrochloric Acid	48,000	December 2007
Total		**260,000**		**260,800**	

Note: "Annual Capacity" denotes the design capacities of the facilities. Actual production has exceeded design capacities by 5 to 10 percent annually.

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

Geographic Revenues

The Company earns virtually all of its revenues in the PRC, with only minor export sales. At the moment, there is no plan to expand into exporting products on a large scale, as the Chinese demand is far from satiated.

Gross Profit

Gross profit for the quarter ended March 31, 2008 increased by $2.4 million (or 41.4%) compared with the previous quarter ended December 31, 2007. Gross margin as a percentage of sales for the quarter ended March 31, 2008 increased by 0.2% to 23.9% (from 23.7%) compared with the previous quarter ended December 31, 2007.

Gross profit for the quarter and six months ended March 31, 2008 increased by $2.0 million (or 31.4%) and $3.1 million (or 28.7%), respectively, compared with the same periods last year. Gross margin as a percentage of sales for the quarter and six months ended March 31, 2008 increased by 1.2% to 23.9% (from 22.7%) and by 1.6% to 23.8% (from 22.2%), respectively, compared with the same periods last year.

Increases in gross profit and gross margin are due to expanded capacity and increased selling prices of finished goods.

The Company expects gross profit margins to be within its targeted range of between 22% and 24% of revenues.

Selling Expenditures

Selling expenditures for the quarter ended March 31, 2008 increased by 0.1 million (or 5.2%) compared with the previous quarter ended December 31, 2007. Selling expenditures as a percentage of sales for the quarter ended March 31, 2008 decreased slightly by 1.2% to 3.6% (from 4.8%) compared with the previous quarter ended December 31, 2007.

Selling expenditures for the quarter and six months ended March 31, 2008 decreased by $0.1 million (or 7.4%) and increased by $0.1 million (or 4.2%), respectively, compared with the same period last year. Selling expenditures as a percentage of sales for the quarter and six months ended March 31, 2008 decreased slightly by 1.2% to 3.6% (from 4.8%) and by 0.6% to 4.1% (from 4.7%) compared with the same period last year.

Selling expenditures also include transportation and related costs incurred for delivery of goods to customers and depreciation on capital assets used by the sales department. In general, increases in selling expenditures were in line with increases in revenues in various periods.

General and Administrative Expenditures

General and administrative expenditures for the quarter ended March 31, 2008 increased by $0.4 million (or 51.6%) compared with the previous quarter ended December 31, 2007. General and administrative expenditures as a percentage of sales for the quarter ended March 31, 2008 increased slightly by 0.3% to 3.5% (from 3.2%) compared with the previous quarter ended December 31, 2007. The increase in general and administrative expenses is mainly due to the increased public company related costs during the quarter compared with the previous quarter ended December 31, 2007.

General and administrative expenditures for the quarter and six months ended March 31, 2008 increased by $0.2 million (or 19.3%) and $0.3 million (or 14.2%), respectively, compared with the same periods last year. General and administrative expenditures as a percentage of sales for the quarter and six months ended March 31, 2008 decreased by 0.2% to 3.5% (from 3.7%) and decreased by 0.2% to 3.4% (from 3.6%) compared with the same periods last year.

General and administrative expenditures include production, finance, human resources and management staff as well as facilities expenses, supplies and equipment depreciation. These costs are, for the most part, fixed and therefore fluctuate to a much lesser extent in relation to revenues.

Professional and Consulting Expenditures

Professional and consulting expenditures for the quarter ended March 31, 2008 increased by $0.2 million (or 144.1%) compared with the previous quarter ended December 31, 2007. Professional and consulting expenditures as a percentage of sales for the quarter ended March 31, 2008 increased slightly by 0.4% to 0.8% (from 0.4%) compared with the previous quarter ended December 31, 2007.

Professional and consulting expenditures for the quarter and six months ended March 31, 2008 increased by $0.1 million (or 47.5%) and decreased by $0.02 million (or 4.9%), respectively, compared with the same periods last year. Professional and consulting expenditures as a percentage of sales for the quarter and six months ended March 31, 2008 increased by 0.2% to 0.8% (from 0.6%) and decreased by 0.2% to 0.6% (from 0.8%) compared with the same periods last year.

Professional and consulting expenditures mainly include corporate level legal, accounting, auditing, consulting and directors' fees.

Earnings

Net earnings for the quarter ended March 31, 2008 were $4.6 million or $0.12 per share. Net earnings for the quarter increased by $1.5 million (or 47.3%) compared with the previous quarter ended December 31, 2007. Net earnings as a percentage of sales for the quarter ended March 31, 2008 increased slightly by 0.6% to 13.2% (from 12.6%) compared with the previous quarter ended December 31, 2007. The significant increase in net earnings compared to the previous quarter is mainly due to expanded capacity and increased selling prices of products.

Net earnings for the quarter and six months periods ended March 31, 2008 increased by $1.2 million (or 36.8%) and $1.9 million (or 33.4%), respectively, compared with the same periods last year. Net earnings as a percentage of sales for the quarter and six months ended March 31, 2008 increased by 1.2% to 13.2% (from 12.0%) and 1.4% to 13.0% (from 11.6%), respectively, compared with the same periods last year.

Expansion Projects

Sichuan Migao

An additional 20,000 tonnes of potassium nitrate capacity was completed in early October and production begun on October 26, 2007. Both the production schedule and the construction costs were in line with company expectations. The expanded production capacity brings the total capacity of the Sichuan Migao facility to 80,000 tonnes of potassium nitrate. All of the production from the 80,000 tonne potassium nitrate facility has been sold into the summer of 2008.

Shanghai Migao

A potassium sulphate facility, with 40,000 tonnes of initial capacity, is under construction in the city of Shanghai and is expected to be completed later this year.

Changchun Migao

A new potassium sulphate facility, with 40,000 tonnes of initial capacity, was constructed in the city of Changchun, province of Jilin. The facility was completed on October 18, 2007 and production began on December 21, 2007. The project was on budget and ahead of schedule.

Liaoning Migao

On April 2, 2008, the Company announced plans to build a 120,000 tonne sulphuric acid production facility. Construction is estimated to be completed by spring 2009.

Tianjin Migao

A potassium sulphate facility, with 40,000 tonnes of initial annual capacity, is under construction in the city of Tianjin and is scheduled to be completed by the end of this year. An additional 40,000 tonnes of potassium sulphate is scheduled to be constructed in 2009.

Zunyi Migao

A potassium sulphate facility, with 40,000 tonnes of initial capacity, is under construction in the city of Zunyi and is scheduled to be completed by the end of this year. An additional 40,000 tonnes of potassium sulphate is scheduled to be constructed in 2009.

Liquidity and Capital Resources

(in thousands of Canadian dollars except for ratios)	**March 31, 2008**	**September 30, 2007**
Current Ratio	2.84 : 1	3.03 : 1
Cash	32,875	17,453
Working Capital	74,513	36,669
Total Assets	170,382	100,027
Total Debt	40,436	18,031
Total Equity	129,946	81,995
Debt to Equity Ratio	0.31 : 1	0.22 : 1

Cash Position

Cash and cash equivalents totalled $32.9 million as of March 31, 2008, representing an increase of $15.4 million and $11.7 million compared with the balances as of September 30, 2007 and December 31, 2007, respectively. The increase for the quarter ended March 31, 2008 is a result of $27.6 million of cash flow from proceeds from exercise of options and warrants and completion of private placement, $1.8 million foreign exchange gain, offset by $12.2 million cash outflow used in operations, and $5.5 million invested in capital assets mainly for the construction of Sichuan, Shanghai and Changchun Migao.

Migao has approximately $4.8 million of land use rights payable.

The Company believes that its current cash position is sufficient to meet the ongoing needs of the business. However, the Company may choose to access capital markets and/or bank financing for funding of future expansion and other opportunities.

Working Capital

Working capital was $74.5 million as of March 31, 2008, representing an increase of $37.8 million and $34.9 million compared with balances as of September 30, 2007 and December 31, 2007, respectively. This latter increase is primarily attributable to $11.7 million increase in cash and cash equivalents, $9.1 million increase in accounts receivable, $8.5 million increase in prepayments, deposits and other receivables, $9.0 million increase in inventory, $0.2 million decrease in customer deposits, $0.3 million decrease in bank indebtedness, and offset by $3.9 million increase in accounts payable and accrued liabilities.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated depreciation and amortization was $31.3 million at March 31, 2008 compared with $20.5 million and $28.1 million as of September 30, 2007 and December 31, 2007, respectively.

Construction in progress was $3.4 million at March 31, 2008 compared with $6.0 million and $1.6 million as of September 30, 2007 and December 31, 2007, respectively.

Land use rights net of accumulated amortization was $20.2 million at March 31, 2008 compared with $18.4 million and $18.7 million as of September 30, 2007 and December 31, 2007. The slight increases are due to unrealized foreign exchange gains on Land use rights experienced during the quarter.

Contractual Obligation Summary

- Purchase contracts for raw materials and supplies in the amount of approximately $42.1 million exist as of March 31, 2008. They were entered into in the normal course of business.

- Commitments on capital expenditures in the amount of approximately $7.2 million exist as of March 31, 2008. They were entered into in the normal course of business.

Report on Controls

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2007 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Internal Control over Financial Reporting

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management has engaged external consultants to evaluate the design of the Company's internal controls and procedures over financial reporting as at September 30, 2007, and believes the design to be sufficient and appropriate to provide such reasonable assurance.

The consultants have made recommendations for improvement in certain aspects of the Company's system of internal controls, including formalizing approval and review processes by using checklists and initialing source documents, and performing reconciliations and other accounting worksheets on a more consistent basis.

The Company has begun the process of hiring additional qualified personnel to assist in the implementation of the above items, and during the quarter hired an additional designated accountant at the corporate head office into the role of Corporate Controller.

Other control factors that readers should be aware of include the fact that the Company maintains a lean financial department in which finance staff are cross trained to handle non compatible functions in case of emergency, illness, staff turnover or other situations. This cross training could result in a lack of segregation of duties. Management mitigates this risk by being aware of whenever incompatible functions are performed and providing additional review and oversight. Despite management's best efforts, there can be no assurance that the risk of material statement in this situation can be reduced. Also, the Company does not have a significant number of staff that possess an understanding of Canadian GAAP given that the Company operates primarily in the PRC and that PRC accounting follows policies prescribed and required by the PRC tax authorities. The Company is looking to hire an additional designated accountant to be based in China to provide additional technical support.

The Company is also required to disclose any change in internal control that has materially affected, or is reasonably likely to materially affect, the issuers controls over financial reporting. Shortly after the quarter end the Company reported that its Chief Financial Officer ("CFO") had resigned and that an interim CFO had been appointed and that a search had commenced for a new CFO. Whenever there is a change in senior financial personnel, there can be no assurance that internal controls and procedures previously established will continue to function as designed and intended.

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

Capital Structure

The Company is authorized to issue an unlimited number of common shares and unlimited number of preference shares, each common share providing the holder with one vote. As of May 9, 2008, there were:

- 41,972,894 common shares outstanding.
- 910,000 stock options outstanding, with exercise prices of between $2.85 to $9.93, and weighted average remaining life of 3.30 years. 173,333 of these stock options are exercisable as of May 9, 2008.
- 1,525,360 warrants outstanding, with exercise price of $3.70, exercisable before May 18, 2008.
- 2,621,000 warrants outstanding, with exercise price of $5.30, exercisable before February 22, 2009.
- 225,938 agent compensation options outstanding, with exercise price of $4.15 per compensation unit. Each compensation unit consists of one common share of the Company and one-half warrant. Each whole warrant entitles the agent to purchase one common share at $5.30 before February 22, 2009.

Off-Balance Sheet Arrangement

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

Transactions with Related Parties

As of March 31, 2008, amount due to Liaoning Yongcheng Economic and Trade Development Co. Ltd. ("LYEDC") was $23,738. LYEDC is controlled by an officer and director of the Company. The amounts are non-interest bearing and due on demand.

Proposed Transactions

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

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's unaudited Consolidated Financial Statements for the three and six month periods ended March 31, 2008, and the audited Consolidated Financial Statements for the year ended September 30, 2007 and the notes thereto. Those Consolidated Financial Statements outline the accounting principles and policies used to prepare our financial statements. The critical accounting policies of the Company are outlined in our Fiscal 2007 MD&A and remain substantially unchanged. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

Accounting policy changes including initial adoption

Effective October 1, 2007, the Company implemented the new CICA accounting Section 3862 (Financial Instruments – Disclosures) and Section 3863 (Financial Instruments – Presentation). These standards provide additional guidance on disclosing risks related to recognized financial instruments and how those risks are managed. The company also implemented Section 1535 (Capital Disclosures), which provides guidance for disclosing information about an entity's capital and how it manages its capital.

These new accounting policy changes have been implemented prospectively and the adoption of these standards did not have a significant impact on the Company's consolidated financial statements.

Recent accounting pronouncements

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Financial Instruments and Other Instruments

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

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In the Annual Information Form of the Company dated January 15, 2008, it provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. In management's opinion, there has been no material change in the nature or magnitude of the risks faced by the Company.