



# CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

MagIndustries Corp.  
TSX-V: MAA

## **Management's Responsibility for Financial Statements**

The accompanying consolidated financial statements and all the data included in this financial report have been prepared by, and are the responsibility of, the management of MagIndustries Corp. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains a system of disclosure controls and internal controls in order to ensure, on a reasonable and cost effective basis, the reliability and completeness of the financial information and disclosures.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee of the Board of Directors, which is comprised of independent directors, has reviewed in detail the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Ernst & Young LLP, Licensed Public Accountants have audited the consolidated financial statements. Their report outlines the scope of their audit and opinion on the consolidated financial statements.

April 9, 2009

**William B. Burton**  
President and Chief Executive Officer

**Jeffrey A. Swinoga**  
Chief Financial Officer

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

## **Auditors' Report**

To the shareholders of MagIndustries Corp.

We have audited the consolidated balance sheets of MagIndustries Corp. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and of cash flows for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
April 9, 2009

**Ernst & Young LLP**  
Chartered Accountants  
Licensed Public Accountants

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

## Consolidated Balance Sheets

(Expressed in thousands of US dollars)

As at December 31

	2008	2007
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	91,494	40,711
Restricted cash (note 3)	-	1,486
Accounts receivable and prepaid expenses (note 4)	10,870	4,110
Inventories (note 5)	5,346	4,056
Current assets of discontinued operations (note 19)	-	3,283
	<b>107,710</b>	<b>53,646</b>
<b>Non-current</b>		
Timber holdings (note 6)	15,744	8,832
Capital assets, net (note 7)	51,453	34,359
Projects under evaluation and development (note 8)	101,726	72,171
	<b>276,633</b>	<b>169,008</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	14,807	19,978
Liabilities of discontinued operations (note 19)	-	3,457
	<b>14,807</b>	<b>23,435</b>
<b>Non-current</b>		
Long term debt (note 9)	-	18,595
Corporate notes (note 10)	32,162	30,683
Asset retirement obligation (note 11)	88	83
	<b>47,057</b>	<b>72,796</b>
Commitments and contingencies (note 16)		
Non-controlling interest (note 12)	7,496	-
<b>Shareholders' equity</b>		
Share capital (note 12)	327,037	145,337
Deficit	(104,957)	(49,125)
	<b>222,080</b>	<b>96,212</b>
	<b>276,633</b>	<b>169,008</b>

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

Approved on behalf of the Board,

**William B. Burton**

**Victor Wells**

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**Consolidated Statements of Loss, Comprehensive Loss and Deficit**

(Expressed in thousands of US dollars, except share and per share data)

Year ended December 31	2008 \$	2007 \$
<b>Sales</b>	<b>30,215</b>	15,144
Shipping	14,718	5,597
Cost of sales	10,468	6,894
	<b>5,029</b>	2,653
<b>Expenses</b>		
General and administrative	19,077	10,802
Stock based compensation (note 12)	15,410	2,882
Project expenditures	8,281	4,388
Write-down of deferred project costs (note 8)	7,665	-
Interest expense	1,805	2
Amortization and depreciation	1,249	984
Accretion expense	8	17
	<b>53,495</b>	19,075
<b>Operating loss from continuing operations</b>	<b>(48,466)</b>	(16,422)
Interest income	2,420	793
Foreign exchange loss	(9,786)	(865)
<b>Net loss for the year</b>	<b>(55,832)</b>	(16,494)
<b>Net loss from discontinued operations</b>	-	(1,928)
<b>Net loss and comprehensive loss</b>	<b>(55,832)</b>	(18,422)
<b>Deficit, beginning of year</b>	<b>(49,125)</b>	(30,703)
<b>Deficit, end of year</b>	<b>(104,957)</b>	(49,125)
<b>Basic and diluted net loss per share</b>		
Continuing operations	\$0.28	\$0.09
Discontinued operations	-	\$0.01
	<b>\$0.28</b>	<b>\$0.10</b>
<b>Weighted average number of common shares outstanding</b>	<b>196,785,945</b>	182,096,328

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

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

## Consolidated Statements of Cash Flows

For the year ended December 31 (Expressed in thousands of US dollars)	2008 \$	2007 \$
<b>Operating activities</b>		
Net loss from continuing operations	(55,832)	(16,494)
Operating items not involving cash		
Stock based compensation	15,410	2,882
Amortization, depreciation and accretion expense	3,342	1,603
Write-down of project costs	7,665	-
Foreign exchange (gain) loss	1,337	2,037
Net changes in non-cash working capital balances relating to operating activities (note 15)	(3,020)	(2,350)
Cash used in continuing operations	(31,098)	(12,322)
Cash from discontinued operations	(174)	1,035
Cash used in operating activities	(31,272)	(11,287)
<b>Investing activities</b>		
Additions to projects under development	(37,220)	(41,330)
Additions to capital assets	(18,343)	(21,669)
Additions to timber holdings	(7,189)	(2,692)
Restricted cash	1,486	(1,486)
Net changes in non-cash working capital balances relating to investing activities	(10,201)	10,936
Cash used in investing activities	(71,467)	(56,241)
<b>Financing activities</b>		
Issuance of corporate notes	-	36,085
Issuance of common shares, net of issuance costs	172,093	18,548
Long term debt (repaid) issued	(20,264)	12,260
Exercise of warrants	352	10,640
Exercise of options	1,341	180
Cash provided by financing activities	153,522	77,713
Net increase in cash and cash equivalents	50,783	10,185
<b>Cash and cash equivalents, beginning of year</b>	<b>40,711</b>	<b>30,526</b>
<b>Cash and cash equivalents, end of year</b>	<b>91,494</b>	<b>40,711</b>

Supplemental cash flow information (note 15)

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

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**Notes to consolidated financial statements**

(Expressed in US dollars unless otherwise stated)

**1. Nature of operations and basis of presentation**

MagIndustries Corp. ("MagIndustries" or the "Company") has four business units, MagEnergy, MagMinerals, MagMetals and MagForestry. The Company is engaged in the financing, development and placing into production or operation of the following projects:

Project	Description	Location	Business unit
Potash plant	Construction of 600,000 tonnes per year potash plant and second phase resource estimate and feasibility study for an additional 600,000 tonnes of capacity	Pointe-Noire, Republic of Congo ("ROC")	MagMinerals
Magnesium plant	Evaluation of the Kouilou magnesium plant to be located adjacent to MagMinerals potash plant	Pointe-Noire, ROC	MagMetals
INGA II	Refurbishment of the hydroelectric facility	Democratic Republic of Congo ("DRC")	MagEnergy
Busanga	Feasibility study of a greenfield hydroelectric site	DRC	MagEnergy
Eucalyptus plantation and chipmill	Operation of a 68 thousand hectare eucalyptus forestry plantation (of which 25 thousand hectares is presently unplanted) and a 500,000 tonne per year wood chip mill	Pointe-Noire, ROC	MagForestry

In addition, the Company previously owned and operated MagPetroleum Inc., which is engaged in the logistics and supply of oil related products in sub-Saharan Africa. Effective December 28, 2006, MagPetroleum was accounted for as a discontinued operation. Full disposition occurred in 2008.

The Company is a development stage enterprise where most of the Company's projects have yet to generate significant revenues. In addition these consolidated financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As described in note 17 the development of the MagMinerals potash project is subject to raising additional equity and debt. The availability of such additional funds is not assured and, if available, the terms thereof are not yet determinable. If these financings are not completed successfully the Company would consider joint ventures with equity partners, and/or the sale of individual projects as well as other sources of capital, or a combination thereof depending on prevailing market conditions at the time. In addition, under the terms of its corporate notes (note 17) the Company is required to meet certain restrictive covenants which limit the Company's ability to sell a majority share of this project. Should the Company be in default its restrictive covenants, the noteholders have the right to call for the acceleration of the payment of the notes. Management believes that the Company will be in compliance with the terms of these notes during fiscal 2009. Accordingly, the debt has been classified according to its repayment terms. If the Company is unable to comply with the terms the corporate notes will become due on demand, unless the Company is able to obtain waivers or extensions.

The Corporation's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

The United States dollar is the principal currency of the Company's primary economic environment. These consolidated financial statements are expressed in United States dollars.

**2. Summary of significant accounting policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are summarized as follows:

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

In 2007 these financial statements also consolidated the accounts of MagPetroleum Inc. and its subsidiaries (note 19).

**Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. During the periods presented, management has made a number of estimates and valuation assumptions in the determination of accruals, useful lives, asset impairment, depletion of timber holdings, valuation of asset retirement obligations, income taxes, stock-based compensation and inventory valuation. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

**Foreign currency translation**

Monetary assets and liabilities of the Company's operations are translated into United States dollars at the year end rate of exchange, and non-monetary assets and liabilities are translated at historical rates of exchange. Transactions denominated in foreign currency are translated at the actual rate of exchange. Gains and losses on foreign currency translation are included in operations.

**Revenue recognition**

100% of MagForestry's revenue consists of the sale of eucalyptus wood chips and logs. The wood chips and logs are delivered by ship and revenue recognition is based on shipping terms. The logs are delivered to customers directly from the storage facility at the port of Pointe Noire, ROC, and typically have the terms free on board (FOB) shipping point or cost and freight (CFR or C&F). Revenue is recorded when the ship leaves the port at which time title and significant risk of ownership has passed to the customer.

**Cash and cash equivalents**

Cash and cash equivalents represent cash and short-term deposits with original maturity dates of less than three months or which are readily convertible into known amounts of cash. Cash and cash equivalents as at December 31, 2008 include cash equivalents of \$38.3 million (2007 - \$11.8 million).

**Inventories**

MagIndustries' inventories are carried at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis and includes all costs of purchase, costs of conversion (direct costs and an allocation of fixed and variable production overheads based on normal operating capacity) and other costs incurred in bringing the inventories to their present location and condition.

Cost of supplies and production materials include purchase cost and costs incurred in bringing each product to its present location and condition. Supplies and materials value is determined based on a weighted average actual cost. Cost of logs/work-in-process includes cost of direct materials, labour and

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Inventories are valued at lower of cost and net realizable value ("NRV"). Inventory is written down to NRV at the time carrying value exceeds NRV. Reversals of previous write-downs to NRV are recognized when there is a subsequent increase in the value of inventories. NRV determined using the estimated selling price in the ordinary course of business, less estimated costs to make the sale.

**Financial instruments**

Financial instruments are measured at their fair values on initial recognition. After initial recognition, financial instruments are measured at the fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classification:

- Cash and cash equivalents are classified as held for trading and are measured at fair value. Gains and losses resulting from their periodic revaluation are recorded in net income.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair values. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale are added to the value of the instruments at acquisition. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method.

**Capital assets**

Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method as follows:

Computer, office equipment and vehicles	2 - 5 years
Forestry equipment	5 years
Leasehold improvements	5 - 10 years
Drilling equipment	10 years
Wood chip mill	5 - 20 years

Commercial production:

The decision on when commercial production is reached is based on a range of criteria that is considered relevant to the specific situation, including: a pre-determined percentage of design capacity for the plant or mill; achievement of continuous production, ramp-ups, or other output; and expected net margin during the pre-production period. Management assesses the operation's ability to sustain production over a period of approximately three months, depending on the complexity related to the stability of continuous operation. Commercial production is considered to have commenced at the beginning of the month in which the criteria are met. No amortization is provided in respect of plant development expenditures until commencement of economical commercial production. Any production revenue earned prior to commercial production, net of related costs, is offset against the development costs.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**Projects under evaluation and development**

Exploration and development expenditures related to projects under development are deferred if it is probable that these costs will be recovered from future operations; otherwise they are recorded as an expense in the period in which they are incurred. Acquisition costs for projects under development are deferred until it is determined that these costs will not be recovered from future operations, at which point these costs are written off to operations. Acquisition costs for projects under development and deferred exploration expenditures are depleted on a unit-of-production basis commencing at the onset of commercial production for the related property.

**Impairment of long-lived assets**

The Company reviews and evaluates the carrying value of its operations and projects for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows. Future cash flows are estimated based on estimated future production, expected sales prices (considering current and historical commodity prices, price trends and related factors), production levels, cash costs of production, and capital and reclamation costs, all based on detailed engineering and production plans. For example, future recoverable production would be determined from reserves and resources after taking into account estimated dilution and recoveries during mining, and estimated losses during ore processing and treatment. Long-lived assets are grouped for purposes of estimating future cash flows at the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in operations and projects.

**Income taxes**

The Company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates and laws in which the income tax assets and liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

**Stock-based compensation**

The fair-value method of accounting for stock options is used. Under this method, compensation cost is measured at the grant date based on the fair value of the reward as determined using the Black-Scholes option pricing model and is accounted for in operations over the vesting period of the options, with the related credit being included in contributed surplus. Consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital along with the contributed surplus previously recognized.

**Timber holdings**

Timber holdings include acquisition costs for young trees and standing timber and planting, maintenance and harvesting costs, which are capitalized over a period of 7 years based on the growth cycle of the type of tree. Timber holdings are depleted when the trees are harvested on the basis of the area of timber cut.

**Asset retirement obligations**

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to remeasurement at each reporting period. The liability is accreted over time through periodic charges to income. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and accounted for in the same manner as the related assets. No amount has been recorded in these consolidated financial statements for future site cleanup, reclamation or remediation obligations for the Company's mineral exploration activities as no such obligations have yet been incurred. The Company has recorded an asset retirement obligation as a result of its forestry operation as

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

the terms of the lease require that the forestry concession on which the Company operates be left in good condition at the end of the lease.

**Interest cost accounting**

Interest cost is considered an element of the historical cost of an asset when a period of time is necessary to prepare it for its intended use. The Company capitalizes interest costs to assets under development or construction while development or construction activities are in progress. Capitalizing interest costs ceases when construction of the asset is substantially complete and it is ready for its intended use. In that case, the specific interest rate is used as well as the weighted average interest rate on other obligations if the asset expenditures exceed the specific borrowing.

**Loss per share**

Basic loss per share amounts are calculated by dividing net loss available to common share holders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury method, which assumes that all outstanding stock options grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

**Comparative figures**

Certain of the prior period's figures have been reclassified to conform to the December 31, 2008 presentation.

**2008 Change in accounting policies - Inventories**

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - Inventories, replaces CICA 3030 - Inventories. The new standard is the Canadian equivalent to International Financial Reporting Standard IAS 2, Inventories. The main features of CICA 3031 are: (1) measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; (2) cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects assigned by using a specific identification of their individual costs; (3) consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted-average cost formula; (4) reversal of previous write-downs to net realizable value when there is a subsequent increase in value of inventories; and (5) possible classification of major spare parts and servicing stand-by equipment as property, plant and equipment (CICA 3061 – Property, Plant and Equipment, was amended to reflect this change). The effect of adopting this section had no impact on the valuation of inventory, income or retained earnings.

**2008 Change in accounting policy – Capital disclosures**

CICA Handbook Section 1535 - Capital Disclosures - specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new section places increased emphasis on disclosures about the nature and extent of risks and as such did not have an impact on the Company's financial results or position. (Note 18)

**2008 Change in accounting policy – Financial Instruments – Disclosure and Presentation**

CICA Handbook Sections 3862 Financial Instruments – Disclosures; and Handbook, and 3863 Financial Instruments – Presentation, have been adopted for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks and as such did not have an impact on the Company's financial results or position. (Note – 17)

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**2008 Change in accounting policy - General Standards of Financial Statement Presentation**

The CICA amended Section 1400 “General Standards of Financial Statement Presentation”, to include requirements to assess and disclose an entity’s ability to continue as a going concern. The main features of the changes are as follows:

- Management is required to make an assessment of an entity’s ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern; and
- When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

The adoption of this change in accounting policy had no impact on the Company’s financial results or position.

**Future changes in accounting policy – Goodwill and Other Intangible Assets and Financial Statement Concepts**

In November 2007, the CICA issued amendments to Section 1000 “Financial Statement Concepts,” and AcG 11 “Enterprises in the Development Stage,” issued a new Handbook Section 3064 “Goodwill and Intangible Assets” (“Section 3064”), to replace Section 3062 “Goodwill and Other Intangible Assets”, withdrew Section 3450 “Research and Development Costs” and amended EIC 27 “Revenues and Expenditures During the Pre-operating Period” to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company’s financial statements is currently being assessed.

**Future changes in accounting policy – Business Combinations**

In January 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581 of the same name. The new section will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582, which provides the Canadian equivalent to International Financial Reporting Standard 3, Business Combinations (January 2008), establishes standards for the accounting for a business combination. Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at fair value on the acquisition date, generally requires acquisition-related costs to be expensed, requires gains from bargain purchases to be recorded in net earnings, and expands the definition of a business. As Section 1582 will apply only to future business combinations, it will not have a significant effect on the Company’s consolidated financial statements prior to such acquisitions.

**Future changes in accounting policy – Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace the existing Section 1600, Consolidated Financial Statements, and provide the Canadian equivalent to International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new sections will be applicable to the Company on January 1, 2011. Section 1601 establishes standards for the preparation of consolidated financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is assessing the impact, if any, of the adoption of these new sections on its consolidated financial statements.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**Future changes in accounting policy - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the Emerging Issues Committee (“EIC”) concluded that an entity’s own credit risk and the credit risk of the counterparty should be taken into accounting in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable retrospectively without restatements of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for period ending on or after the date of the issue of the Abstract (January 20, 2009). Retrospective application with restatement of prior periods is permitted but not required. Early adoption is encouraged. The application of incorporating credit risk into the fair value should result in entities re-measuring the financial assets and financial liabilities as at the beginning of the period of adoption with any resulting difference recorded in retained earnings except when derivatives in a fair value hedging relationship accounted for by the short cut method (difference is adjusted to the hedged item) and for derivatives in cash flow hedging relationship (differences are recorded in accumulated other comprehensive income). The Company is assessing the impact, if any, of the adoption of this new section on its consolidated financial statements.

**Future changes in accounting policy – International Financial Reporting Standards**

The Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. MagIndustries has undertaken a project to assess the potential impacts of the transition to IFRS and has developed a detailed project plan to ensure compliance with the new standards.

The Company has completed the initial phase of the implementation project including the detailed diagnostic analysis which included a high-level impact assessment to identify key areas that may be impacted by the adoption of IFRS. This analysis resulted in the prioritization of areas to be evaluated in the next phase of the project plan, component evaluation. This phase, which is currently in progress, includes the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. The Company is currently assessing the impact of the adoption of IFRS on our results of operations, financial position and financial statement disclosures.

**3. Restricted cash**

Restricted cash was hypothecated for letters of credit written in favour of the Company’s suppliers.

**4. Accounts receivable and prepaid expenses**

Accounts receivable and prepaid expenses consist of:

December 31 (thousands)	2008 \$	2007 \$
Accounts receivable	6,168	3,138
Advances to suppliers	3,435	517
Prepaid expenses	1,164	455
Employee loan	103	-
	<b>10,870</b>	<b>4,110</b>

On April 11, 2008 the Company extended a relocation loan of an original amount of CAD\$0.25 million to an employee and director of the Company. The loan bears interest at 4% per annum, is unsecured and repayable on April 10, 2009. The loan and interest are recorded at the exchange amount. The balance of the loan at December 31, 2008 is CAD\$0.13 million.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**5. Inventory**

December 31 (thousands)	2008 \$	2007 \$
Consumable supplies and production materials	3,951	1,902
Inventory of logs/work in progress	907	2,154
Wood chips	488	-
	<b>5,346</b>	<b>4,056</b>

The amount of inventory recognized as an expense and included in cost of goods sold during the year was \$10.5 million (2007: \$6.9 million). No amounts were charged to the income statement for the write-down of inventory for valuation issues during 2008 or 2007.

**6. Timber holdings**

The change in value of timber holdings is due to the following:

(thousands)	\$
Balance, December 31, 2006	6,412
Additions and deferred planting costs	2,692
Amortization (as part of cost of goods sold)	(272)
Balance, December 31, 2007	8,832
Additions and deferred planting costs	7,189
Amortization (as part of cost of goods sold)	(277)
Balance, December 31, 2008	15,744

**7. Capital assets**

(thousands)	December 31, 2008		
	Cost	Accumulated depreciation	Net book Value
Computer and office equipment	2,227	(577)	1,650
Leasehold improvements	2,139	(351)	1,788
Vehicles	4,725	(2,053)	2,672
Forestry equipment	6,288	(1,873)	4,415
Drilling equipment	6,424	(1,091)	5,333
Wood chip mill	35,692	(212)	35,480
Assets in progress	115	-	115
	<b>57,610</b>	<b>(6,157)</b>	<b>51,453</b>

In 2008, MagForestry has constructed a 500,000 tonne per year chip mill located in Pointe-Noire, ROC. This facility was completed in June 2008 and ramp-up to commercial production was achieved on November 1, 2008. Sales and cost of sales during ramp-up period of \$10.5 million and \$12.1 million respectively have been capitalized in the cost of the wood chip mill.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

	December 31, 2007		
	\$		
	Cost	Accumulated depreciation	Net book Value
(thousands)			
Computer and office equipment	777	(270)	507
Leasehold improvements	740	(133)	607
Vehicles	3,488	(681)	2,807
Forestry equipment	4,398	(218)	4,180
Drilling equipment	4,176	(614)	3,562
Construction in progress	22,696	-	22,696
	36,275	(1,916)	34,359

## 8. Projects under evaluation and development

The Company has five principal projects under evaluation and development:

**MagMinerals** has completed a detailed feasibility study and is commencing construction of a stand alone potash plant. The completion of the feasibility study included drilling resource definition holes and solution mining rated production wells which will enable the production of a magnesium and potassium rich chloride brine from the Mengo brine field for delivery by pipeline to the MagMinerals' potash plant and MagMetals' Kouilou magnesium plant. Planning is underway to increase the planned capacity from 600 thousand tpy to 1.2 million tpy.

**MagMetals** is responsible for the evaluation of the Kouilou magnesium project, which includes a proposed magnesium plant on the same site proposed for MagMinerals potash plant. Further development of this project is awaiting the full ramp-up of MagMinerals construction activities.

**MagEnergy** is currently refurbishing turbine G23 and conducting emergency repairs on three other turbines at the Inga II hydro electric facility located on the Congo River, 300 km southwest of Kinshasa in the DRC. The Inga II facility is owned by Société Nationale d'Electricité ("SNEL"), the public energy commission of the DRC. These emergency works involve an agreement whereby the Company contributes 70% of the costs of these works, with the remaining 30% contributed by Industrial Development Corporation ("IDC") of South Africa. The corresponding cash inflows from this phase are split by the same percentage.

The Company's role in the Inga project is that of financier and project manager. The Company expects realize its investment with two stages of cash inflows. In the initial stage, before the successful operation of the refurbished turbines, the Company has received a monthly fee of \$0.2 million (with 30% due to IDC) until January 2008, which is directed from the income received from SNEL's existing external electricity off-take contracts. Total fees earned to date amount to \$2.7 million (which is net of the 30% due to IDC). When these emergency repairs are complete the Company will begin to earn a return by sharing in the sale of electricity from INGA II to customers of SNEL. Until such time as the Company is certain that the return on the project will be in excess of its investment, the Company is treating the cash flows as a reduction of the amounts expended. This cash flow is therefore not considered revenue, but a repayment of advances.

MagEnergy also has the development rights for the construction of a potential hydroelectric facility at the Busanga site on the Lualaba River in the Katanga Province of the DRC. An interim feasibility study has been completed for this project.

Projects under development comprise the Company's most significant non-monetary asset. Currently, the Company has completed or is in the process of completing feasibility studies that include basic

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

engineering studies, environmental assessment, site selection surveys, and drilling. The recoverability of these costs will be influenced by a number of factors including environmental risks, political risks, title risks, commodity pricing risks and the Company's ability to attain profitable production from its projects, which can happen only following the obtaining of permits, project financing, construction, and start-up, or to realize proceeds from disposal.

(thousands)	\$
Balance, December 31, 2006	30,841
Additions during the year	41,330
Balance, December 31, 2007	72,171
Additions during year	37,220
Write-off of previously deferred costs	(7,665)
Balance, December 31, 2008	101,726

(thousands)	December 31, 2008			Total \$
	Energy \$	Metals \$	Minerals \$	
Development & construction	9,109	-	26,374	35,483
Drilling	-	-	24,709	24,709
Engineering	14,645	102	18,561	33,308
Environmental & social	270	-	2,918	3,188
Technology	-	5,751	-	5,751
Capitalized interest	1,931	-	3,016	4,947
IDC Contribution	(3,000)	-	-	(3,000)
SNEL cash flow	(2,660)	-	-	(2,660)
	20,295	5,853	75,578	101,726

On June 26, 2008, MagMetals signed a technology license agreement for electrolytic magnesium extraction processes. As a result, the deferred costs of \$5.4 million relating to the previous magnesium studies and processing technology licenses were written off during 2008.

During 2008 MagEnergy expensed \$2.3 million of costs previously deferred related to projects it is no longer pursuing.

(thousands)	December 31, 2007			Total \$
	Energy \$	Metals \$	Minerals \$	
Project development	8,383	1,470	8,992	18,845
Drilling	-	-	21,631	21,631
Engineering	14,202	678	16,558	31,438
Environmental & social	217	68	1,819	2,104
Technology	-	1,915	-	1,915
Finance structuring	-	-	1,221	1,221
Capitalized interest	60	226	531	817
IDC Contribution	(3,000)	-	-	(3,000)
SNEL cash flow	(2,800)	-	-	(2,800)
	17,062	4,357	50,752	72,171

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**9. Long term debt**

On June 19, 2006 MagIndustries International Inc. signed a finance contract for the development of the Kouilou potash and magnesium projects with European Investment Bank ("EIB"). The contract for the financing of drilling costs and technical studies was for up to Euro 13 million and had a basic interest rate of 3% per annum payable annually in arrears. Additional interest of 3% per annum was payable subsequent to the signing of a debt arrangement for the financing of either the INGA II rehabilitation or the construction of the potash or magnesium projects. A further 3% interest per annum was also payable upon the signing of a second debt arrangement for any of the three projects above. The loan was due three years after drawdown. In addition the Company issued to EIB additional consideration consisting of one million common share purchase warrants entitling the holder to purchase common shares of the Company at a price of \$1.00 per common share for 3 years from the date of first disbursement (December 21, 2006). On June 30, 2008 the Company opted to pre-pay this obligation by making a full payment of 13 million euros, plus accrued interest and pre-payment penalties of \$0.35 million and \$2.7 million respectively.

(thousands)	\$
Balance, December 31, 2007	18,595
Value accretion	329
Interest accrued	350
Pre-payment penalty	2,672
Foreign exchange loss	1,340
Repayment	23,286

**10. Corporate notes**

On December 19, 2007 the Company completed the issuance of units for total gross proceeds of \$37.8 million. The financing consisted of an offering of units with each Unit consisting of one note (the "Notes") in the principal amount of one thousand dollars and 175 common share purchase warrants (the "Warrants"). The Notes bear interest at the rate of 11% per year, payable semi-annually and mature five years and one day following closing (being December 20, 2012). Each Warrant will entitle the holder to purchase one additional common share of the Company at a price of CAD\$2.40 per share for five years after closing. The notes are secured by the assets of MagIndustries Corp. MagForestry Inc., MagMinerals Inc. and MagEnergy Inc. The agents to the offering received a cash commission of 4.0% of the principal amount of the Notes sold under the Offering. At December 31, 2008 the fair value of these notes is \$19 million. The effective interest rate used is 15.2%.

(thousands)	\$
Gross proceeds	37,845
Allocation to warrants	(5,431)
Agents' fees and expenses	(1,760)
Value of debt on initial recognition	30,654
Value accretion	29
Balance, December 31, 2007	30,683
Value accretion	1,479
Balance, December 31, 2008	32,162

**11. Asset retirement obligation**

In connection with MagForestry's operations on the forestry concession in the Republic of Congo, the Company has an obligation to maintain the concession by operating it in good condition and to continue with a program of silviculture to maintain or enhance the current growing area. This gives rise to an asset retirement obligation at the end of the 71 year lease because towards the end of the lease the Company

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

will have to plant and maintain trees that it will prospectively not sell. The long-term asset retirement obligation is based on current management plans, cost estimates and compliance with existing agreements. Accretion expense is charged to the consolidated statements of earnings based on application of an interest component to the existing liability.

(thousands)	\$
Balance, December 31, 2006	67
Accretion expense	16
Balance, December 31, 2007	83
Accretion expense	8
Foreign exchange gain	(3)
Balance, December 31, 2008	88

MagForestry's asset retirement obligation was initially recorded as a liability at fair value, assuming a credit adjusted risk free discount rate of 10% and an inflation factor of 2%. The liability for replanting on an undiscounted basis before inflation is estimated to be approximately \$8.1 million. Management anticipates that such obligations will be substantially settled during the final 7 years of the forestry lease, anticipated to occur from 2070 to 2076.

In view of the uncertainties concerning planting costs and hectares to plant, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable.

The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

**12. Shareholders' equity**

December 31 (thousands)	2008 \$	2007 \$
Common shares	<b>308,327</b>	133,790
Warrants	<b>5,852</b>	6,031
Contributed surplus	<b>12,858</b>	5,516
	<b>327,037</b>	145,337

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

MagIndustries is authorized to issue an unlimited number of common shares.

	Number of Shares	Amount \$(thousands)
Balance December 31, 2006	171,893,072	101,551
Private placement of common shares at CAD\$1.57 (note 12(a))	12,508,000	18,548
Exercise of options	650,000	180
Original fair value of options exercised	-	80
Exercise of warrants	8,872,944	10,640
Original fair value of warrants exercised	-	2,791
Balance December 31, 2007	193,924,016	133,790
Exercise of options	3,670,000	1,341
Original fair value of options issued	-	573
Exercise of warrants	320,000	352
Original fair value of warrants issued	-	178
Exchange rights exercised (note 12(b))	90,165,946	172,093
	<b>288,079,962</b>	<b>308,327</b>

- a) On August 24, 2007 the Company completed a non-brokered private placement pursuant to which the Company issued 12,508,000 common shares at an issue price of CAD\$1.57 per share for gross proceeds of CAD\$19.6 million.
- b) On April 4, 2008 and April 29, 2008 the Company closed a private placement offering of securities in the capital of MagMinerals Potash Corp. (a Canadian company, newly incorporated for the purposes of listing the potash project on a recognized Canadian stock exchange, "MagPotash"). The securities were priced at CAD\$4.00 each, for gross proceeds of CAD\$100 million prior to agents' commission of CAD\$4 million and other expenses of the Offering. The Offering was structured as an offering of 25,000,000 common shares in a newly formed entity, MagMinerals Holdings Corp. ("MagHoldings"), which used the proceeds from the offering to immediately subscribe for CAD\$100 million of subscription receipts in the capital of MagPostash at a price of CAD\$4.00 per subscription receipt.

MagPotash, the Company and MagHoldings agreed to use their best efforts to cause a liquidity event to occur before October 3, 2008 (the "Liquidity Event Deadline"). Such liquidity event involved (i) the completion of a reorganization to, among other things, cause MagBarbados (the entity which held the potash assets) to become a wholly-owned subsidiary of MagPotash, (ii) causing MagPotash to become a reporting issuer in one or more provinces of Canada and (iii) causing the common shares of MagPotash to become listed on a Canadian exchange.

Each subscription receipt entitled the holder thereof to acquire (for no additional consideration) at any time, and would have been deemed to cause the holder thereof to acquire on the completion of a liquidity event, one common share in the capital of MagPotash (or in the event that the aforementioned liquidity event did not occur by the Liquidity Event Deadline, 1.05 common shares in the capital of MagPotash).

In connection with the transaction, the Company issued each purchaser of MagHoldings shares a right (an "Exchange Right"). In the event that a listing of the common shares of MagPotash did occur by December 31, 2008, the Exchange Right entitled and obligated each holder of MagHoldings shares to exchange such shares for common shares in the capital of MagIndustries ("MagIndustries Shares"). The number of shares issuable on such exchange was calculated by dividing the issue price of the MagHoldings shares (multiplied by 1.05) held by each such holder by the lower of (i) 92.5% of the volume weighted average price of the MagIndustries Shares for the twenty trading day period ending on December 31, 2008, and (ii) the closing price of the MagIndustries Shares on the closing date, subject to the restriction that the effective issue price of the MagIndustries Shares would be in no case be less than \$1.79.

Pursuant to the Offering, the agents were entitled to receive from the Company a cash fee equal to 5% of the gross proceeds. As permitted under the terms of the offering, the agents elected to receive

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

their commission in respect of the second tranche in securities. This resulted in the issuance of an additional 250,000 MagHoldings' Shares (and related Exchange Rights) and an additional 250,000 subscription receipts. As a result, pursuant to the first and second tranches, a total of 25,250,000 MagHoldings Shares (and related Exchange Rights) and 25,250,000 subscription receipts of MagPotash were issued.

On July 14, 2008 and September 22, 2008 the Company completed the issuances of an additional CAD\$70 million and CAD\$12 million, respectively, in subscription receipts, at a price of CAD\$5.00 per subscription receipt under the same terms and conditions as the April 4, 2008 and April 9, 2008 private placement offering mentioned above.

On December 31, 2008, as the Company had not achieved the Liquidity Event, the exchange rights previously issued in connection with the above transactions were automatically exercised resulting in the issuance of 90,165,946 common shares in the capital of the Company.

**Options**

As of December 31, 2008, 15,600,000 common shares were reserved for the exercise of stock options granted to directors, officers, employees and service providers in connection with the Company's stock option plan (the "Plan"). The Plan allows for the granting of up to 10% of the issued common shares of the Company at the time of the grant of the stock option. Each grant will not exceed 5 years, and will vest over 12 to 36 months from the date of grant.

The following summary sets out the activity in outstanding Plan options:

December 31	2008		2007	
	Options #	Weighted- average exercise price \$	Options #	Weighted- average exercise price \$
Outstanding, beginning of period	12,645,000	0.90	8,195,000	0.58
Granted	8,275,000	2.44	5,100,000	1.24
Exercised	3,670,000	0.37	(650,000)	0.28
Forfeited	1,650,000	1.85	-	-
Outstanding, end of period	15,600,000	1.75	12,645,000	0.90
Options exercisable at end of period	10,783,337	1.48	8,628,356	0.77

The details of stock options outstanding at December 31, 2008 are as follows:

Exercise price per share	Outstanding options	Remaining contractual life	Weighted average strike price	Vested options	Remaining contractual life	Weighted average strike price
\$0 - \$0.99	3,050,000	2.7	\$0.85	2,041,662	1.8	\$0.83
\$1.00 - \$1.99	9,175,000	3.6	\$1.48	7,616,679	3.5	\$1.38
\$3.28	3,375,000	4.4	\$3.28	1,124,996	4.4	\$3.28
	15,600,000	3.6	\$1.75	10,783,337	3.3	\$1.48

On February 20, 2009, 100,000 options with an exercise price per share of \$0.40 expired unexercised.

**MagMinerals share option plan**

During the period MagMinerals granted 10,500,000 stock options to directors, officers, employees and service providers in connection with MagMinerals' stock option plan. The options vest over 18 months with an exercise price of \$4.00. 3,500,000 options were exercisable at December 31, 2008. MagMinerals recognized stock based compensation expense of \$7.5 million in respect of these options. The

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

contributed surplus of MagMinerals has been recorded as non-controlling interest in these consolidated financial statements.

The fair value of the options granted under both plans during the year was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions: risk-free interest rate of 3.3% (2007 – 4.0%), expected dividend yield of nil (2007 – nil), expected volatility of 66% (2007 – 99%) and expected life term of 3.6 years (2007 – 5.0 years).

**Warrants**

The following table summarizes information about the Company's warrants outstanding at December 31, 2008.

Description	2008		2007	
	Warrants	Exercise Price Range	Warrants	Exercise Price Range
Outstanding, beginning of the year	7,942,875	\$1.00 to CAD\$2.40	13,976,275	\$1.00 to \$1.50
Granted	-	-	6,622,875	CAD\$2.40
Expired	-	-	(3,783,331)	\$1.20 to \$1.50
Exercised	(320,000)	\$1.10	(8,872,944)	\$1.10 to CAD\$1.40
Outstanding, end of the year	7,622,875	\$1.00 to CAD\$2.40	7,942,875	\$1.00 to CAD\$2.40

The details of warrants outstanding at December 31, 2008 are as follows:

Exercise price per share	Expiry date	Number of warrants outstanding	Remaining contractual life
\$1.00	December 21, 2009	1,000,000	1.0 years
CAD\$2.40	December 20, 2012	6,622,875	4.0 years
		7,622,875	

**Contributed surplus**

	2008	2007
(thousands)	\$	\$
Beginning balance	5,516	1,647
Stock-based compensation expense	7,915	2,882
Transfer to common shares on exercise of stock options	(573)	(80)
Warrants expired	-	1,067
Balance end, of period	12,858	5,516

**13. Segmented operating information**

Reportable segments are identified by the end product or services of the segment. MagForestry operates in Pointe-Noire in the Republic of Congo. All MagForestry sales consist of shipments to customers in Europe. The rest of the Company's continuing activities are considered to be in the evaluation and development stage. The accounting policies of these reportable segments are the same as those described in note 2. The Company analyzes the performance of operating segments based on net income/loss.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Year ended December 31 2008(thousands)	MagForestry \$	MagEnergy \$	MagMinerals \$	MagMetals \$	Corporate \$	Total \$
Sales	30,215	-	-	-	-	<b>30,215</b>
Cost of sales*	(25,186)	-	-	-	-	<b>(25,186)</b>
Project expenses	-	(1,517)	(6,625)	(139)	-	<b>(8,281)</b>
Expenses	(9,049)	(174)	(3,800)	(57)	(7,810)	<b>(20,890)</b>
Options expense	-	-	(7,496)	-	(7,914)	<b>(15,410)</b>
Write-downs	-	(2,250)	-	(5,415)	-	<b>(7,665)</b>
Depreciation and amortization	(184)	(90)	(836)	(2)	(137)	<b>(1,249)</b>
Interest income	56	10	1,977	5	372	<b>2,420</b>
Foreign exchange	4,806	960	19,836	1,093	(36,481)	<b>(9,786)</b>
<b>Net income (loss)</b>	<b>658</b>	<b>(3,061)</b>	<b>3,056</b>	<b>(4,515)</b>	<b>(51,970)</b>	<b>(55,832)</b>

Year ended December 31 2007(thousands)	MagForestry \$	MagEnergy \$	MagMinerals \$	MagMetals \$	Corporate \$	Total \$
Sales	15,144	-	-	-	-	15,144
Cost of sales*	(12,491)	-	-	-	-	(12,491)
Project expenses	-	(1,923)	(2,431)	(34)	(-)	(4,388)
Expenses	(4,687)	(55)	(13)	(14)	(6,052)	(10,821)
Options expense	-	-	-	-	(2,882)	(2,882)
Depreciation and amortization	(199)	(77)	(612)	-	(96)	(984)
Interest income	48	27	49	-	669	793
Foreign exchange	(2,821)	(1,819)	(2,226)	(14)	6,015	(865)
<b>Net loss</b>	<b>(5,006)</b>	<b>(3,847)</b>	<b>(5,233)</b>	<b>(62)</b>	<b>(2,346)</b>	<b>(16,494)</b>

\*Including shipping

As at December 31 (thousands)	<b>2008</b>		<b>2007</b>	
	<b>Capital assets \$</b>	<b>Total assets \$</b>	Capital assets \$	Total assets \$
MagMinerals	6,411	161,483	4,124	57,646
MagMetals	10	6,031	-	4,548
MagEnergy	348	18,871	366	18,592
MagForestry	41,288	77,201	29,116	53,192
Corporate	3,396	13,047	753	31,747
	<b>51,453</b>	<b>276,633</b>	<b>34,359</b>	<b>165,725</b>

All amounts are from continuing operations

#### 14. Income taxes

Major items causing the Company's effective income tax rate to differ from the Canadian statutory rate of 33.5% (2007 – 36.1%) were as follows:

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

December 31 (thousands)	2008 \$	2007 \$
Loss before income taxes	<b>(55,832)</b>	(18,422)
Expected income tax benefit based on statutory rate	<b>(18,703)</b>	(6,655)
Adjustments to benefit resulting from:		
Share issuance costs	<b>(2,084)</b>	-
Non-capital loss expiry	<b>235</b>	144
Stock-based compensation	<b>5,206</b>	1,041
Disposition of MagPetroleum	<b>(149)</b>	-
Other non-deductible expenses	<b>48</b>	113
Non-deductible interest	<b>1,395</b>	657
Impact of tax rates in foreign jurisdictions	<b>3,442</b>	3,746
Impact of change in foreign exchange rates	<b>1,251</b>	(1,142)
Non-deductible unrealized foreign currency loss	<b>7,048</b>	-
Non-taxable unrealized foreign currency gain	<b>(2,762)</b>	-
Rate differential between current and future rates	<b>753</b>	-
Tax rate adjustments	<b>1,109</b>	-
Increase in valuation allowance	<b>3,211</b>	2,096
Provision for income taxes	<b>-</b>	-

The components of the Company's future tax assets are as follows:

December 31 (thousands)	2008 \$	2007 \$
Non-capital losses	<b>7,640</b>	8,105
Unrealized foreign currency losses	<b>6,061</b>	-
Capital assets	<b>(1,114)</b>	48
Discount of long-term notes	<b>(1,324)</b>	(1,819)
Loss on disposition of MagPetroleum	<b>149</b>	-
Resource related deductions	<b>1,685</b>	2,097
Share issuance costs	<b>1,829</b>	886
Eligible capital expenditures	<b>14</b>	21
Future income tax asset	<b>14,940</b>	9,338
Future income tax liability - Unrealized foreign currency gains	<b>(2,391)</b>	-
Valuation allowance	<b>(12,549)</b>	(9,338)
Net future income tax asset	<b>-</b>	-

As at December 31, 2008, the Company has Canadian non-capital losses available for carry forward of approximately \$12.5 million (2007 - \$12.7 million) which expire as follows:

(thousands)	\$
2009	413
2013	334
2014	1,167
2025	3,858
2026	2,931
2027	544
2028	3,239
	<b>12,486</b>

The Corporation's Barbados subsidiaries have non-capital losses of approximately \$5.0 million (2007 - \$9.9 million) available to offset income taxes payable in the future. These losses expire over 9 years.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

The Corporation's South Africa subsidiary has non-capital losses of approximately \$0.2 million (2007 - \$0.5 million) available to offset income taxes payable in the future. These losses do not expire.

**15. Supplemental cash flow information**

December 31 (thousands)	2008 \$	2007 \$
Interest paid	4,639	2
Income taxes paid	-	-

Net changes in non-cash working capital balances:

December 31 (thousands)	2008 \$	2007 \$
Accounts receivable and other assets	(6,760)	(472)
Inventories	(1,290)	(2,748)
Accounts payable and accruals	5,030	1,075
Bank indebtedness	-	(205)
	<b>(3,020)</b>	<b>2,350</b>

**16. Commitments, contingencies and guarantees**

As at December 31, 2008, the Company has not identified any claims, conditions or contingencies that had arisen that would result in a liability as a result of its guarantees and indemnifications. The Company and its subsidiaries may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business which the Company believes would not reasonably be expected to have a material adverse effect on the financial condition of the Company.

In the normal course of operations, the Company and its subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as capital project purchases, business acquisitions, and sales and purchases of assets and services.

The Company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount that the Company could be required to pay third parties as the agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, neither the Company nor its subsidiaries have made significant payments under such indemnification agreements.

The future minimum lease payments on the Company's leased premises are:

(thousands)	\$
2009	691
2010	595
2011	415
2012	235
2013	235

The Company has committed to a production well drilling contract of approximately Euro 12 million. Early cancellation of this contract would result in a penalty payment of 25% of the unbilled amounts.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

On December 28, 2008 a former employee of the Company's wholly owned subsidiary MagAlloy Congo SA filed a claim for payment in the amount of \$26.7 million. Based on the status of the claim, the ultimate resolution is unknown however in management's estimate the resolution is not expected to be material to the Company's consolidated financial position.

**17. Financial instruments and risk management**

Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments, including those held for sale on the consolidated balance sheet are classified into the following categories:

December 31 (thousands)	2008 \$	2007 \$
Held for trading <sup>(1)</sup>	91,494	42,197
Loans and receivables <sup>(2)</sup>	6,168	4,110
Other financial liabilities <sup>(3)</sup>	(46,969)	(69,257)
	<b>50,693</b>	<b>(22,950)</b>

(1) Includes cash and cash equivalents.

(2) Includes accounts receivable.

(3) Includes accounts payable and accrued liabilities long-term debt, and corporate notes

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying value.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

Risk management is carried out by management in conjunction with an outsourced treasury management organization under policies approved by the Board of Directors. Management identifies, evaluates and executes the hedging of financial risks.

**(a) Market risk**

*(i) Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The company is primarily operates in Republic of Congo, which has a currency which has a fixed exchange rate to the Euro (the "FCFA"). Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-US dollar forecast operating costs on a case by case basis. Future revenue from forecast potash sales is likely to be denominated in US Dollars. The majority of the Company's forecast operating cost is in US dollars and FCFA/Euros and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

The carrying amount of the Company's monetary assets and liabilities at the year end is as follows:

(thousands)	Assets \$	Liabilities \$
US dollars	41,936	34,772
Euros	37,212	8,623
Canadian dollars	18,448	3,550
South African rand	66	24
	<b>97,662</b>	<b>46,969</b>

*Sensitivity*

Based on the financial instruments held at December 31, 2008, had the US Dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the quarter would have been \$4.4 million higher/lower as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments as detailed above. Equity would have been \$4.4 million higher/lower had the US Dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments.

*(ii) Price risk*

*Commodity price risk*

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company is exposed to commodity price risk arising from revenue derived from future wood fibre sales and forecast future potash or electricity sales. The Company does not manage commodity price risk through the use of derivative instruments.

*Sensitivity*

At December 31, 2008 a change in the value of potash, wood fibre or electricity would not change the recognized value of any of the Company's financial instruments.

*(iii) Cash flow fair value interest rate risk*

The Company does not have significant variable interest-bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the funds invested in the Company's bank accounts.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to outstanding receivables.

The Company has policies in place to ensure that sales of products are made to credit worthy customers and where necessary credit risk is effectively eliminated or substantially reduced by using bank instruments to secure payment. Credit worthiness is determined using external credit rating agencies.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. The main long-term financial obligation of the Company is the \$37.8 million face value of the Notes which are due December 20, 2012.

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

As at December 31, 2008, MagIndustries had net working capital of \$92.9 million and had 288,079,962 shares outstanding on an undiluted basis. The Company currently has sufficient resources to continue MagForestry operations through the 2009 year and continue advancing MagEnergy's development plans. Development of the MagMinerals potash project as described above is subject to raising additional equity and debt the project financing for the project. If these financings are not each completed successfully the Company would consider joint ventures with equity partners, and/or the sale of individual projects as well as the issuance of additional shares.

**(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available for similar financial instruments.

**18. Management of capital**

The Company's objective when managing capital is to maintain adequate levels of funding to support evaluation and development projects, to expand regional exploration activities within the Kouilou province of Congo and to maintain corporate and administrative functions.

The Company manages its capital structure in a manner that provides sufficient funding for project evaluation and development and operational activities. Funds are primarily secured through the issue and sale of common shares and long-term debt. There can be no assurances that the Company will be able to continue to provide adequate funds in this manner.

The Company maintains minimal surplus capital and therefore does not have significant investments. All working capital for immediate needs are invested in liquid and highly rated financial instruments, such as money market funds with major Canadian and Caribbean financial institutions.

**19. Discontinued operations**

The following is a summary of the MagPetroleum business segment, which has been accounted for as a discontinued operation since December 28, 2006.

December 31 (thousands)	2007 \$
Cash	141
Accounts receivable and prepaid expenses	2,953
Advances for petroleum shipments	189
	<u>3,283</u>
Capital assets	-
	<u>3,283</u>
Accounts payable and accrued liabilities	3,457
Due to MagIndustries	2,795
Deficit	(2,969)
	<u>3,283</u>

**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

Year ended December 31 (thousands)	2007 \$
Sales	19,218
Cost of goods sold	17,172
Gross profit	2,046
Operating expenses	2,305
Net loss	(259)
Impairment of segment assets	(1,669)
Segment net loss	(1,928)

In 2007 the Company determined that due to continuing losses at MagPetroleum the capital and non-monetary assets were impaired and were written down to fair value. In addition the previously deferred gain on disposal of \$0.6 million was also written off. In 2008 MagIndustries remaining interest to MagPetroleum was sold to a third party for note receivable of \$0.9 million. The value of this note will be recognized when received.

**20. Subsequent event**

On April 2, 2009 the Company repurchased \$5.5 million principal amount of its Notes for aggregate consideration (including accrued interest) of \$2.1 million, by way of private agreement. The repurchased Notes were cancelled pursuant to the terms of the indenture governing such notes and MagIndustries has reached an agreement with the holder of the associated 967,164 common share purchase warrants to not exercise such warrants prior to their expiry.



**MAGINDUSTRIES CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**